



# Regional Policy and Recovery from the Economic Crisis

## Annual Review of Regional Policy in Europe

### EoRPA Paper 10/1

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## Preface

This report has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

### Austria

- Bundeskanzleramt (Federal Chancellery), Vienna

### Finland

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

### France

- Délégation à l'aménagement du territoire et à l'attractivité régionale (DATAR), Paris

### Germany

- Bundesministerium für Wirtschaft und Technologie (Federal Ministry of Economics and Technology), Berlin
- Ministerium für Wirtschaft, Mittelstand und Energie des Landes Nordrhein-Westfalen (Ministry of Economics, SMEs and Energy of the Land of Nordrhein-Westfalen), Düsseldorf

### Italy

- Ministero dello Sviluppo Economico (Ministry of Economic Development), Dipartimento per lo sviluppo e la coesione economica (Department for Development and Economic Cohesion), Rome

### Netherlands

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

### Norway

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

### Poland

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

### Sweden

- Näringsdepartementet (Ministry of Enterprise, Energy and Communications), Stockholm

### United Kingdom

- East Midlands Development Agency (EMDA) on behalf of the English RDAs
- Department for Business, Innovation and Skills, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

The research for this report was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2010.

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For each of the above countries, a separate country report is available to EoRPA partners via the EoRPA website, providing fuller, country-specific information on the themes covered in this report. At present, country reports cover the EU15 plus Poland and Norway, with the remaining EU12 countries being combined together in a single review. Coverage of the EU12 is progressively being developed with a view to having separate country reports on each of them.

EPRC staff would also be pleased to provide further, country-specific briefing material relating to the issues covered in this report on request from EoRPA partners, where this is available.

Many thanks are due to everyone who participated in the research. Thanks also to Dr Keith Clement and Alyson Ross for editorial and secretarial support respectively. In addition, the European Policies Research Centre gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

#### Disclaimer

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

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## Executive Summary

### Introduction

The aim of this report is to review recent changes in domestic regional policies across Europe, focusing on policy change since the beginning of 2009. The report has eight main sections covering the following themes: regional disparities and problems; conceptual debates on regional policy; the main regional policy developments in 2009-10; changes in policy objectives; the spatial orientation of regional policy; regional policy instruments; the implementation of regional policy; and regional policy expenditure. A final section draws together the main issues emerging and presents questions for discussion.

The report is based on research in individual European countries and presented in a series of country reports that have been provided separately (see EoRPA Paper 10/2). The paper is supported by a series of comparative tables that highlight policy changes across Europe (EoRPA Paper 10/3).

### Analysis of regional patterns and trends

Patterns of regional disparities differ, depending on whether the analysis is based on a national or a Europe-wide perspective, and depending on the indicators used (e.g. GDP per capita, unemployment rates or disposable income). Nevertheless, economic data suggest that the level of disparities varies across countries. While some countries show low regional disparities on a number of different indicators, dispersion is high in others, not only in catching-up economies (where a rise in regional disparities may arguably be a temporary phenomenon) but also in wealthier countries where geographically differentiated patterns of structural change are less acute.

When comparing trends across European countries, however, it is clear that one of the main drivers of change in regional disparities in recent decades has been catching-up and associated structural change in central European economies. A related driver is the increased role of the service sector in all economies, which generally has the effect of reducing disparities as employment follows the population distribution. Similarly, increased economic integration at an EU and world level also affects regional disparities, as it changes the relative attractiveness of individual regions and countries to different kinds of business investment and activity. Lastly, regional disparities have been shaped by institutional and policy frameworks, not least public investment in infrastructure, human capital and support for business investment in structurally weaker regions.

While it is too soon to tell whether the 2008-10 financial and economic crisis will have a long-term impact on regional disparities, it is clear that there have been some temporary effects over the past two years. In most countries, the regions most affected in 2009 were those with strong export manufacturing sectors or with many suppliers to export manufacturers. In contrast, the diversified sectoral structure of metropolitan regions has meant that many have seen only limited effects, despite the importance of the financial sector in such regions. The rise in unemployment rates in export manufacturing regions has

led to a narrowing in interregional disparities in all countries, although to varying degrees, as some regions with low rates in 2008 have seen above-average increases in 2009 and/or 2010.

The impact of the crisis on structurally weaker regions has varied, depending in particular on their exposure to internationally traded sectors. Lagging regions may, however, experience stronger effects in the medium-to-long term, due to the disproportionate impact of the loss of even a small number of businesses or jobs in such regions, as well as the greater vulnerability of such regions to cuts in public expenditure and employment.

The extent of regional resilience to external shocks varies across countries, depending on the number of structurally weaker regions (e.g. with low GDP per capita, employment rates or population density), as well as on the degree of sectoral specialisation at a regional level. European Commission projections on potential future challenges suggest the need also to take account of other regional dimensions of vulnerability, particularly those relating to climate change, globalisation and demographic shifts.

### Conceptual debates on regional policy

The main conceptual debate in recent years concerns whether and how governments should respond to uneven spatial development. The World Bank's World Development Report 2009 advocates government policies to support the concentration of economic activity and convergence of living standards. In a strong critique of regional policies, the report makes a powerful case for 'spatially-blind' institutions and infrastructure investment. A different conceptual approach starts from the premise that all regions have development potential. The OECD, for example, maintains that the task for regional policy is to promote the growth of each region by mobilising local assets and resources so as to capitalise on their specific competitive advantages, rather than depending on national transfers and subsidies to help them grow. Furthermore, the place-specificity of natural and institutional resources requires interventions to be tailored to places. However, these are demanding requirements for regional policy.

A further challenge in thinking about the future of regional policy concerns the response of policymakers to the changing external environment. The impact of the economic crisis - on top of longer-term issues such as climate change, energy security, and demographic change - has raised questions about the prevailing paradigm of regional policy and its focus on competitiveness. The term 'regional resilience' has been used increasingly, either to mean long-term adaptation or short-term recovery from economic or environmental shocks. These arguments have been deployed to propose another 'new paradigm' of regional policy, with regional strategies that place more emphasis, *inter alia*, on local identity, the utilisation of local knowledge, a greater role for embedded forms of economic activity, labour and resources, stronger emphasis on inter-regional interdependencies and distribution of resources, and support for business adaptation.

## Developments in regional policy, 2009-10

Over the past 12-18 months, the main focus of policymaker attention has been the macro-economic environment. As countries have emerged from the crisis, with the resumption of growth, policy attention has shifted from stimuli for consumer demand and investment to dealing with the consequences of the crisis. In many countries, the priority is fiscal consolidation to reduce budget deficits and accumulated debt. Measures are also being introduced to improve competitiveness.

The two countries where the changes to regional policy have been most substantial are two Nordic countries: Finland, where a new regional development strategy and reform of regional governance have been introduced; and Norway, where a White Paper has placed more emphasis on local development. A third set of changes is associated with recent regional development legislation in Bulgaria. In several other countries, major strategic changes are in the pipeline. New legislation, concepts or plans have either been put forward for discussion or are anticipated over the next year in Austria, the Netherlands, Poland, France, Romania and Malta.

The economic crisis has changed the parameters for many aspects of government intervention. This is particularly the case in Greece, Italy, the United Kingdom and Ireland, where regional policy is currently in a period of uncertainty as a result of economic and political changes, in most cases involving significant cuts in resources.

The degree of policy change has been less significant in the remaining EU countries. The main policy objectives, spatial coverage, instruments and administrative arrangements remain largely unchanged. Nevertheless, in several cases, the economic crisis has led to a re-assessment of current strategies, with adaptation or 'recalibration' of strategic priorities to ensure that they maximise opportunities for growth, innovation and sustainable development, or with adjustments to the level of resources. This applies particularly to Belgium, Luxembourg, Denmark, Germany and Sweden.

Lastly, it is worth noting the countries where policy changes are limited to less significant modifications of policy instruments or delivery arrangements. For the most part, these comprise Member States where regional policy is synonymous with Cohesion policy, which has provided some stability for policy objectives and spending. This applies to EU12 Member States, as well as Spain and Portugal.

## The objectives of regional policy

A long-term trend in many countries has been a shift in regional policy goals from being a policy primarily concerned with territorial equity to one giving more priority to growth and competitiveness at the regional level. This general picture has not changed over the past 1-2 years. Regional policy often remains focused on longer-term goals - although with some important differences in approach.

The main objective of regional policy in several countries is 'competitiveness' - variously defined as involving innovation, entrepreneurship and productivity improvements - at national and regional levels. As a result of the economic crisis, the focus on national

competitiveness is increasing in some countries. However, a commitment to regional equity and distinctive development needs and goals continues to be reflected in domestic policy objectives. Indeed, it is not uncommon for there to be a dualism in the goals of regional policy - assuming that the oft-discussed tensions or even conflicts between efficiency and equity (or between competitiveness and cohesion) can be reconciled or accommodated.

A more recent trend, evident over the past decade in particular, has been in the direction of place-based policies of various kinds. This involves adapting regional policies to the needs of individual types of regions, mobilising the growth potential of specific centres or clusters, or facilitating interaction between regions or centres. In addition, one of the striking features of some European regional policies in recent years is the longer-term thinking about the goals of policy. The agenda for regional policy has been broadening to incorporate new policy themes, in particular climate change and alternative energy, environmental sustainability, energy security, and demographic change (including migration and demographic ageing). The degree to which this policy-thinking is being translated into practice does, however, vary; in some cases, the new policy objectives are contained in long-term spatial planning concepts and vision statements that are intended to serve as guidance for territorial development over the next 20-40 years.

Lastly, it should be noted that the economic crisis has led to sizeable cutbacks in regional development spending in some countries. This may well have implications for the 'weight' attached to policy goals and priorities, although they are not yet clear.

### The spatial orientation of regional policy

An all-region approach characterises the regional policies of many European countries, whereby every region is expected to maximise the opportunities for growth and competitiveness in order to increase national efficiency. This approach is, however, not universal, and several countries still have a strong, regionally selective approach to regional policy intervention. Even within the framework of all-region regional policies, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. In some cases, this regional selectivity has been intensified by the economic crisis.

More recently, a number of countries are looking at new ways to define and designate regions and target support, involving a wider range of policy interventions at different spatial scales. Territories and spaces such as macro-regions, regional corridors, city-regions, localities and 'functional areas' are becoming the subject of integrated regional development interventions, as opposed to single schemes applied to areas within fixed administrative boundaries. Targeting support on urban centres as growth poles to promote regional development and balanced development has already been used for some time. There is now also evidence of a more 'localised' policy approach to spatial targeting in a few countries.

Looking to the future, efforts to agree functional areas and apply more 'place-based' approaches to spatial targeting will rely on gaining local-level support for the areas agreed, transferring the ideas set out on paper into practice, securing the required resources and coordinating the potentially wide range of organisations and actors involved, all of which

can be challenging. Meanwhile, shifting regional development priorities and the emergence of new regional policy themes and priorities, such as energy and demographic change, will continue to impact on spatial targeting.

### Developments in the use of regional policy instruments

The recent period has seen a continued shift away from regional aid towards broader business support measures in some countries. At the same time, there has been increased interest in instruments providing targeted support for areas facing structural change. Overall, however, regional strategies and programmes have remained broadly unchanged.

A decline in regional aid is due partly to the economic crisis, reflecting reduced demand and cutbacks in government funding. It is also linked to wider policy concerns about the effectiveness of grant-based support. While the future of regional aid seems uncertain in some cases, the continued importance accorded to regional aid has been confirmed in other countries. Changes have been made to the scope and themes covered by regional aid, with a growing focus on sustainability issues.

At the same time, new instruments have been established to support areas affected by the crisis and faced with structural change. Targeted programmes have also been launched in response to particular territorial needs or sudden events. Business support instruments have gained in importance. More generally, the crisis has been a driver in the shift from grant-based schemes to broader firm support. Cluster initiatives continue to be pursued in a number of countries, with recent evaluations demonstrating mostly positive results. Common challenges concern the scale of clusters and their link with the territory, as well as coordination with innovation policies and other support mechanisms.

The uptake of the available support has varied. While some countries witnessed an increased interest in regional aid and business support in the current crisis context, demand has been falling in other places. There have also been cases where project implementation or performance has suffered from funding gaps related to the general economic downturn.

The greater use of regional programmes over the past decade has given regional policy stability in some countries, although elsewhere this approach is under review or subject to adaptation. Some countries have increased their emphasis on local capacity development. Attempts are also being made to improve the inter-relationship between domestic policy interventions and EU Cohesion policy programmes in some of the EU12 Member States. Targeted strategic initiatives have been introduced in some countries, promoting regional potential or focusing on areas with specific needs. Lastly, there have been changes with respect to sectoral policies that have implications for regional policy. Progress has been made in the field of urban policies, both regarding the strategic development of urban centres and more targeted initiatives. New approaches are evident in the field of spatial planning and infrastructure development.

## Developments in the management and implementation of regional policy

The main changes in the administration of regional policy over the 2009-10 period involve a 'rescaling' of governance - changes to the territorial scale at which policy is delivered. There are also important developments in the coordination of policy. Both these factors are influencing the structures and systems of regional policy administration, as well as its efficiency and accountability.

In several countries, the regional level continues to accrue responsibilities for regional policy administration, either through regional policy reforms or through broader administrative changes that include decentralisation. However, this does not mean that there has been a corresponding decrease in central government inputs. The role of the centre is being redefined rather than reduced. Central government remains a significant source of funding for regional development and, thus, inevitably has a strong interest in policy delivery and accountability. With a view to promoting policy efficiency, it is also keen to enhance national-level coordination. Furthermore, it is increasingly seen to have an important steering and coordination function *vis-à-vis* the regions. These central government tasks are prominent in the context of the crisis. As well as the impact of the global economic trends, conceptual shifts, including the current interest in 'place-based' policy, are driving debates on whether economic development policy is best administered at the regional level. The emergence of new 'functional' spaces, based for instance on travel-to-work areas, labour market areas, transport corridors, and trans-border regions, indicates a shifting perspective that transcends regional structures and regional administrative boundaries. New administrative configurations are evolving, such as multi-area and local area agreements or associations, metropolitan zones, city-regions, and intra-regional strategies.

Coordination remains a crucial issue for regional policy administration. The challenges posed by new regulations, changing levels of funding, and the restructuring of instruments are prompting the emergence of new coordination mechanisms. Processes include: the strengthening of horizontal or vertical partnership structures; new organisational arrangements to coordinate different funding streams; efforts to develop thematic or sectorally-based structures to boost the coordination of interventions; and the establishment of central guidelines, contracts and agreements. The economic crisis is sharpening long-term debates on how regional policy can be administered in the most efficient and accountable way. Conditionalities and incentives are being used to ensure that funding achieves the desired objectives. Anti-crisis measures are accelerating or simplifying the administration of some regional policy instruments.

Finally, there is an increasing use of monitoring and evaluation, particularly impact evaluation. However, in some countries at least, there is a tension between the aim of closely assessing the efficiency and accountability of reduced regional policy spending and the need to streamline policy administration, including monitoring and evaluation systems.

## Conclusions

The macro-economic context for regional policy is characterised by a return to positive real economic growth in most European countries. However, the impact of the crisis on the real economy, coupled with the strong fiscal response in many countries, has led to an increase in government expenditure and indebtedness. In several countries, there are concerns that the medium- and long-term effects of the crisis could be particularly severe in structurally weaker areas. Furthermore, there is already evidence of fiscal consolidation having a substantial impact on some regional policy budgets

The overall goals of regional policy have changed little over the 2009-10 period, with a continued focus of many regional policies on national/regional competitiveness, while maintaining at least some interest in equity through spatial targeting of support on weaker regions. An interesting development is the thinking underway on regional resilience, a reaction to the increasing international economic, social and environmental pressures faced by regions. Over the past year or so, there has been a noticeable increase in longer-term thinking by regional policymakers about how to react to challenges such as climate change, sustainable development, energy security and demographic change.

A further question concerns the spatial scale at which policy interventions should be designed and implemented. The trend over the past two decades has been in the direction of greater regionalisation. An important counterpoint is a greater focus on local development and bottom-up development in some countries. This reflects the broader debate in regional policy across Europe on place-based policies and the spatial scale of interventions. A more complex geography of regional development policy is emerging.

Regional aid remains part of the armoury of regional policy instruments and has played a significant part in some stimulus packages. Nevertheless, regional policymakers have been giving more attention to support for the business environment, particularly measures to support entrepreneurship and regional innovation. Strategies involving clusters or growth/competitiveness poles are central to several policies, and regional programmes continue to play an important role.

Finally, the combination of trends outlined in this report is putting greater pressure on the management and implementation arrangements for regional policy. The recent policymaker interest in implementing policy at different spatial scales that are not aligned with administrative boundaries and emerging thinking on resilience suggest that the governance of regional development will be one of the key challenges for regional policymakers over the next few years.





# Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10

## 1. INTRODUCTION

Over the past year, regional policy has been implemented in an increasingly difficult environment. Although regional policies were sometimes part of the initial government response to the economic crisis in 2008-09, especially to mobilise access to investment capital and coordinate government intervention in the regions, during 2009-10 several national regional policies were subject to severe cuts in spending. However, in a number of countries, there are concerns that the medium- and long-term effects of the crisis could be particularly severe in structurally weaker areas. Regional policy intervention is likely to be important in responding to such pressures, but there are also broader challenges exercising the minds of regional policymakers: climate change, sustainability, demographic ageing, migration and energy security. In response, some countries have been developing very long-term territorial development strategies as frameworks for action in different policy fields. There are also interesting developments in the way that 'place-based' policy thinking is changing the scale for policy intervention - involving not just the 'region' but different levels and areas such as localities, urban centres, rural areas and cross-border spaces.

The aim of this report is to provide an overview of these and other recent changes in regional development policies across Europe. It comprises a comprehensive, comparative and reasonably concise review and assessment of how the challenges for regional development policy are evolving, the key features of conceptual debates, and the changing policy response - in terms of objectives, instruments, administration and expenditure. The intention is to give regional policymakers a clear picture of how regional development policies are changing across Europe, the rationale for policy trends, and how individual countries fit within the broader picture. This type of regional policy report is produced each year under the EoRPA research programme, and the current review is the 31<sup>st</sup> annual report to be produced since EoRPA was founded in 1978-79.

This report focuses mainly on policy changes since the start of 2009, highlighting the key developments taking place and the main factors underpinning change. The report is based on detailed research on the regional policies of individual European countries<sup>1</sup> and is supported by a series of standard comparative tables, as part of each chapter, highlighting recent policy developments on a country-by-country basis; these tables are also available as a separate document, providing a quick summary of how individual aspects of policy are evolving in each country.<sup>2</sup>

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<sup>1</sup> See: *Regional Policy Developments in the Member States and Norway: Country Reviews 2009-10*, EoRPA Paper 10/2, European Policies Research Centre, University of Strathclyde, October 2010.

<sup>2</sup> See: *Regional Policy Developments in the Member States and Norway: Comparative Tables 2009-10*, EoRPA Paper 10/3, European Policies Research Centre, University of Strathclyde, October 2010.

It should be noted that this annual report incorporates some changes compared to previous versions. In response to feedback from EoRPA partners,<sup>3</sup> this report provides more detailed analysis of regional policy challenges (Chapter 2) and a new section reviewing recent conceptual debates (Chapter 3). The format of Chapters 4-8 has also been modified with the intention of making the report more readable.

The paper is in eight further sections. Chapter 2 begins by examining the state of regional economic disparities in Europe, as well as recent trends in disparities. It also assesses the impact of the financial and economic crisis on regional disparities, focusing in particular on the EoRPA partner countries. The discussion considers the resilience of regions in the face of external shocks, exploring the number of relatively weak regions within different countries, the sectoral structure of regional economies, and potential future challenges for regional development.

Chapter 3 reviews current academic and policy debates concerning the conceptual frameworks for current regional policies and strategies. It briefly reviews recent literature putting forward arguments for spatially-blind versus place-based policies, the critiques of 'regional competitiveness' and the emerging thinking on 'regional adaptation'.

Chapters 4 to 9 then turn to the regional policy response. Chapter 4 begins by providing an overview of the main regional policy developments in 2009-10. It begins with those countries where new legislation and strategies have been introduced or where new policy or strategic thinking is in progress and those countries where policy is in a state of flux because of economic and/or political pressures. The chapter subsequently reviews those countries where there has been some recalibration of strategies or resources and then covers the remaining countries where changes to policy design or delivery have been less significant.

Chapter 5 examines in more detail how regional policy objectives are changing in response to the economic crisis, political developments and long-term development challenges such as climate change and demographic pressures. It considers the overall strategic frameworks for policy and then focuses on specific policy objectives for competitiveness and cohesion.

Chapter 6 covers changes to the spatial orientation of policy. It discusses how the traditional focus of regional policy on regional aid areas has been subject to change over an extended period, with all-region policy approaches becoming increasingly dominant, but with the retention of elements of regional targeting. A noteworthy trend, which has been emerging over recent years and has been reinforced by changes made in 2009/10, is the pursuit of new ways of targeting support involving a wider range of policy interventions.

Chapter 7 is concerned with regional policy instruments. It examines how policy has moved from a rather narrow focus on regional investment aid and infrastructure support to a broader approach, encompassing support to the regional business environment more widely, and with a rise in the prominence of regional programming. The chapter focuses on

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<sup>3</sup> See: *Annual Report and Evaluation of EoRPA*, EoRPA Paper 10/3, European Policies Research Centre, University of Strathclyde, October 2010.

targeted regional policy instruments, broader support to the business environment, programming approaches and relevant sectoral policies.

Chapter 8 discusses changes to the implementation of regional policy. It considers how the scale at which policy is delivered has been evolving, as well as recent changes in policy coordination. It also examines recent changes aimed at improving the efficiency or accountability of regional policy administration.

Chapter 9 briefly outlines how regional policy expenditure has been changing. It reviews how the global economic crisis is having a substantial impact on the regional policy budgets of some Member States (at both central government and sub-national levels), and highlights how, in a context of economic crisis and budgetary uncertainty, the role of Cohesion policy as a source of stable, multi-annual development funding is emphasised.

Finally, Chapter 10 draws together the main points to emerge from the report in conclusions and issues for discussion at the EoRPA Conference.



## 2. REGIONAL DEVELOPMENT, CHANGE AND RESILIENCE: ANALYSIS OF PATTERNS AND TRENDS IN EUROPE

### 2.1 Introduction

Regional policymakers in Europe face very different challenges. Regional disparities and trends vary greatly between countries and depend upon the indicators used. Some regional problems are long-term or structural; others are attributable to the recent economic crisis and may be short-lived. New challenges are also emerging, creating new regional dimensions of vulnerability, associated with climate change, globalisation and demographic shifts.

This chapter provides an analysis of regional disparities and problems across Europe, focusing on how they are evolving. (Recent changes in individual countries are also summarised in Table 2 at the end of the chapter). It first examines long-run regional economic disparities in European countries, as well as recent trends in disparities, drawing in particular on comparative data relating to GDP per capita and unemployment rates but also on other data on income disparities. The chapter then assesses the impact of the 2008-10 financial and economic crisis on regional disparities in Europe, concentrating mainly on the EoRPA countries and drawing on national data sources on changes in regional unemployment rates. Lastly, it considers the resilience of regions in the face of external shocks, exploring the number of relatively weak regions within different countries, the sectoral structure of regional economies, and potential future challenges for regional development.

### 2.2 Regional economic disparities in Europe

Research on long-term disparities presents a mixed picture. Some studies have found a long-term process of convergence between European countries, and also between the poorest regions (and Member States) and the EU average.<sup>4</sup> However, there are very different trends in disparities within countries, with a number of the poorer Member States, for example, seeing a widening in internal disparities as their more dynamic regions have experienced stronger catching-up towards the EU average than their structurally weaker regions. This section examines regional disparities from a long-term perspective, drawing on GDP per capita data for 1995-2008, as well as unemployment data for 2005-07 (the longest time-series regional data available from EUROSTAT). It starts by examining regional economic disparities in terms of GDP per capita and unemployment rates and then looks at trends over time.

#### *2.2.1 Long-run regional disparities*

The pattern of regional economic disparities within a country is driven by a number of different factors. Numerous theoretical and empirical studies since the late 19th century

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<sup>4</sup> European Commission (DG Regional Policy) (2007) *Growing Regions, Growing Europe: Fourth Report on Economic and Social Cohesion*, Brussels; European Commission (DG Economic and Financial Affairs) (2000) 'The EU Economy 2000 Review', *European Economy* No.71, Luxembourg.

have developed the concept of agglomeration economies to explain why economic activities tend to concentrate in particular places.<sup>5</sup> Core advantages to agglomeration are seen in terms of a large market for goods and services, diverse suppliers of inputs, a large pool of specialised labour, and knowledge spillovers. Other studies have explored how rising fixed costs (e.g. relating to congestion) in agglomerations, along with improvements in connections to other regions, can encourage economic activities to spread out geographically.<sup>6</sup> Lastly, many studies emphasise the role of policy in facilitating either the concentration or spread of business development, particularly through investment in transport and ICT infrastructure, as well as in higher education, training and business support in all regions, but also through redistributive mechanisms.

Nevertheless, data on different indicators may show widely differing patterns of interregional disparities. For example, the regional dispersion of unemployment rates may be significantly stronger than the dispersion of GDP per capita due to structural factors that limit business demand for labour in some regions or constrain the access of certain groups to the labour market (typically young people, low-skilled people or second-wage earners in households). Similarly, there may be significant differences between regional disparities in GDP per capita and regional disparities in personal or household disposable income, particularly if the latter takes account of interregional differences in the cost of living (see Box 1).

#### An analysis of EUROSTAT data (

Table 1, and Tables A1 and A2 in Annex 2) suggests that the EU Member States and Norway can be divided into a number of different groups.

In a first group of countries, national GDP per capita is high relative to the EU27 average and regional disparities in GDP per capita are low. This group can be further divided by drawing on unemployment data:

- In Denmark and the Netherlands, national unemployment rates are low, and there are limited disparities in regional unemployment rates.
- In Austria, the national unemployment rate is relatively low, but the dispersion of regional unemployment rates is high.
- In Sweden, the national unemployment rate is relatively high but the dispersion of regional unemployment rates is low.
- In Germany, Finland, Italy, Spain and France, both national unemployment rates and the regional dispersion of unemployment rates are high.

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<sup>5</sup> Marshall A (1890) *Principles of Economics*, London: Macmillan; Brusco S (1982) 'The Emilian model: productive decentralisation and social integration', *Cambridge Journal of Economics* 6, pp. 167-184; Lucas R (1988) 'On the mechanics of economic development', *Journal of Monetary Economics* 22, pp. 3-42; Fujita M, Krugman P and Venables A (1999) *The Spatial Economy: Cities, Regions and International Trade*, Cambridge (MA): MIT Press.

<sup>6</sup> Myrdal G (1957) *Economic Theory and Underdeveloped Regions*, London: Duckworth; Hirschman A (1958) *The Strategy of Economic Development*, New Haven: Yale University Press.

Table 1: National economic performance and regional dispersion

	National GDP per capita	Regional dispersion of GDP per capita	National unemployment rate	Regional dispersion of unemployment
Austria	High	Low	Low	High
Belgium	High	High	High	High
Bulgaria	Low	High	High	High
Czech Republic	Low	High	Low	High
Denmark	High	Low	Low	Low
Finland	High	Low	High	High
France	High	Low	High	High
Germany	High	Low	High	High
Greece	Low	Low	High	Low
Hungary	Low	High	High	High
Ireland	High	High	Low	Low
Italy	High	Low	High	High
Netherlands	High	Low	Low	Low
Norway	High		Low	Low
Poland	Low	Low	High	Low
Portugal	Low	Low	High	Low
Romania	Low	High	High	High
Slovakia	Low	High	High	High
Slovenia	Low	Low	Low	High
Spain	High	Low	High	High
Sweden	High	Low	High	Low
United Kingdom	High	High	Low	High

Note: High (low) national GDP per capita is defined as GDP per capita above (below) the EU27 average. A low national unemployment rate is defined as a rate that is at least two percentage points below the EU27 average in either 2005-2007 or 2006-2008. Low regional dispersion is defined as a coefficient of variation that is less than 0.30.

Source: EPRC calculations based on EUROSTAT data.

In a second group of countries (Belgium, Ireland, United Kingdom), national GDP per capita is high, but regional disparities in GDP per capita are also strong, largely because the capital city regions have much higher levels of GDP per capita than other regions. The three countries differ in relation to unemployment data, as Ireland has a low national unemployment rate and low regional dispersion of unemployment rates; the United Kingdom has a low national unemployment rate and high regional dispersion of unemployment rates; and Belgium has a high national unemployment rate and high regional dispersion of unemployment rates.

In a third group of countries, national GDP per capita is low compared to the EU average, and levels of regional dispersion are high, again generally due to relatively high GDP per capita levels in the capital city region. All of the countries in this group are in Central and Eastern Europe and are undergoing a process of structural change and economic catching-up as they become more integrated into the broader European economy. It is therefore possible that levels of regional dispersion will fall as structural change spreads throughout all regions. These countries can be divided into two sub-groups:

- the Czech Republic has a low national unemployment rate but high levels of dispersion of regional unemployment.
- Bulgaria, Hungary, Romania and Slovakia have high national unemployment rates and high regional disparities in terms of regional unemployment.

#### Box 1: Regional disparities in primary and disposable income

EUROSTAT has recently analysed regional disparities in household primary income and household disposable income.<sup>i</sup> Both datasets show a different pattern of regional disparities than is found if regional GDP per capita or regional unemployment data are used. On the one hand, regional primary income differs from regional GVA, as it is calculated on the basis of the regional distribution of income derived from the purchase and sale of labour, capital, goods and services (whereas GDP or GVA is calculated on the basis of the value-added generated by economic actors). On the other hand, regional disposable income is calculated on the basis of primary income but also takes account of the redistributive effects of the State tax-benefit system and other transfer payments between regions.

The analysis showed that regional disparities are stronger in the case of primary income than they are in the case of GDP. For example, almost one-third of the EU population was found to live in areas with per capita values of over 125 percent of the EU average in the case of primary income, compared to a quarter of the population in the case of GDP. Similarly, the percentage of the population living in regions with a per capita primary income of less than 75 percent of the EU average fell from 27.6 percent in 2000 to 25.3 percent in 2007, but there was a stronger fall in the case of regional GDP per capita, from 27.8 percent to 24.5 percent of the EU population.

Household or personal disposable income data provide perhaps the clearest picture of the interregional economic disparities as experienced by individuals (although, to be more accurate, they should also take account of regional differences in the cost of living, which the EUROSTAT data do not). In general, the tax-benefit system has a smoothing effect on interregional income differences, as higher levels of tax resource are collected per head in wealthier regions and as higher levels of welfare benefits are paid out in poorer regions. The analysis showed that disposable income was higher than primary income in 28 NUTS 2 regions (for which data were available) in Bulgaria (Severozapaden, Yugoiztochen and Yuzhen tsentralen), Germany (Chemnitz, Dresden, Leipzig and Sachsen-Anhalt), Greece (Kentriki Makedonia and Attiki), Italy (Calabria), Poland (Kujawsko-Pomorskie, Łódzkie, Lubelskie, Opolskie, Podkarpackie, Podlaskie, Śląskie, Świętokrzyskie and Warmińsko-Mazurskie), Portugal (Alentejo, Centro and Norte), Romania (Nord-Est, Sud-Est, Sud-Muntenia and Sud-Vest Oltenia) and the United Kingdom (Cornwall & the Isles of Scilly and West Wales & the Valleys).

It should be noted, however, that transfer mechanisms largely operate within each Member State (as EU budgetary transfers remain relatively small compared to national interregional transfers, even in the poorest Member States). Therefore, levels of household income per capita in the poorest regions of the richer Member States may be relatively high when compared with household per capita in all regions of poorer Member States.

<sup>i</sup> EUROSTAT (2010) Regional discrepancies in private household income narrowing, *Statistics in Focus* 41/2010, Luxembourg.



The final group of countries has low national GDP per capita and low regional dispersion of GDP per capita. Within this group:

- Slovenia has a low national unemployment rate and relatively high regional dispersion of unemployment.
- Conversely, Greece, Poland and Portugal have high national unemployment rates and low regional dispersion of unemployment. The combination of relatively poor national performance with low regional dispersion may indicate that there has been a strong policy emphasis on addressing interregional disparities, despite the low national level of GDP per capita relative to the EU average.

### *2.2.2 Trends in regional disparities*

There are a number of factors that have driven changes in regional disparities in recent decades, some of which are rooted in very long-term shifts in population and economic structures. Many countries, for example, are continuing to experience very long-term changes in the geographical distribution of population, often typified by an ongoing population shift from more remote rural areas to urban and suburban areas, as well as a shift out of city centres into nearby suburban and rural areas. While shifts out of more remote areas typically increase regional disparities, suburbanisation trends tend to be associated with a reduction in disparities and a more even distribution of population and economic activities.

The most significant changes in regional disparities in recent years have generally been in Central and Eastern European countries that have undergone rapid processes of economic catching-up, associated with significant structural changes. These processes typically occur more rapidly in some regions than in others and are thus the driving force of both national economic growth and increased internal regional disparities.<sup>7</sup> Over time, the link between increased national growth and regional disparities weakens, as businesses move to other regions with lower costs and as higher national income facilitates public investment in infrastructure and human capital throughout the country as well as inter-regional redistribution.

Patterns of long-term sectoral change have also been seen in other European countries in recent decades, not least via the increase in the role of private and public service sectors in the wider economy, which often has the effect of reducing economic disparities between regions, as much service sector employment reflects population distribution. This is not the case, however, for financial services, which have become more concentrated in metropolitan centres in recent decades.

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<sup>7</sup> Williamson J (1965) 'Regional inequality and the process of national development: a description of the patterns', *Economic and Cultural Change* 13, pp. 1-84; Davies S and Hallet M (2002) 'Interactions between national and regional development', *HWWA Discussion Paper* No. 207; Barrios S and Strobl E (2009) 'The dynamics of regional inequalities', *Regional Science and Urban Economics* 39, pp. 575-591.

Other factors have also influenced the location of business activity in recent decades. On the one hand, the process of economic integration within the EU (and also within the wider world economy) has changed the relative attractiveness of individual regions to business investment, as previous eastern border regions now have a central location within the enlarged EU and as businesses take advantage of economies of scale within a larger EU market by better integrating and relocating components of their production chains. On the other hand, the development and diffusion of information and communication technologies has altered the locational constraints on some types of business and has increased the potential for some firms to be located in more remote regions yet compete in core markets.

Lastly, institutional and policy frameworks have influenced change and persistence in regional disparities in recent decades. Regional policies and investment in human, physical and knowledge capital in lagging regions have helped to attract and stimulate the creation of businesses in these locations. Broader macroeconomic policies and institutional frameworks have shaped the broader context for economic activity, while redistribution mechanisms have limited disparities in disposable income and public services.

Drawing on data on regional GDP per capita in 1995-2008 (Table A1), EU Member States and Norway can be divided into a number of groups in relation to recent trends in regional disparities.

First, a number of countries (Bulgaria, Czech Republic, Ireland, Hungary, Poland, Romania and Slovakia) experienced a rise in both regional dispersion and national GDP per capita relative to the EU27 average in 1995-2007. These countries have undergone rapid catching-up, which is associated with geographically uneven structural change, with the shifts initially occurring in metropolitan centres and later spreading to other regions.

Second, some countries have seen little change in regional dispersion but have seen a rise in national GDP per capita relative to the EU27 average. Some of these (Greece, Spain and Slovenia) have converged upwards towards the EU average and can be seen to be engaged in a process of catching-up towards EU levels of economic development. However, Finland and the Netherlands are also in this group, indicating that they have experienced above-average real economic growth in 1995-2007, yet without a widening in regional disparities.

Third, Portugal and Sweden saw little change in either regional dispersion or national GDP per capita relative to the EU27 average in 1995-2007. As EU GDP per capita rose in this period, both experienced solid real growth rates. However, while Sweden already had a high level of GDP per capita, Portugal remained at only 76 percent of the EU average in 2007 and did not see any real catching-up in 1995-2007. Levels of regional dispersion are low in both countries.

Fourth, a number of countries have seen little change in regional disparities in 1995-2007 but have experienced a fall in national GDP per capita relative to the EU average (Austria, Belgium, France, Germany and Italy). While the level of regional disparities is limited in Austria, there is an ongoing divide between two macro-regions in Germany and Italy, and a significant degree of interregional disparities in Belgium and France.

Last, the United Kingdom is the only country to have seen a rise in regional disparities without a clear increase in GDP per capita in 1995-2007.

## 2.3 The financial/economic crisis and regional disparities

### 2.3.1 Macroeconomic context for regional development

The broader context for regional development since 2008 has been strongly shaped by the financial and economic crisis and the ensuing recession. The emergence of significant weaknesses in the financial sector was triggered by the bursting of a property bubble in the United States and was exacerbated by uncertainty over the exposure of individual financial institutions to affected loans and institutions. As lenders became increasingly risk averse and liquidity dried up, businesses in all sectors were unable to borrow, leading to a fall in business activity and employment.

Policy responded by loosening monetary and fiscal policies significantly, in order to ensure the flow of credit to businesses and to stimulate demand. Nevertheless, the European Commission's forecasts of May 2010 estimate that EU27 real GDP growth fell to -4.2 percent in 2009, with all Member States except Poland (1.0 percent) seeing negative growth, and with Estonia, Latvia and Lithuania showing growth of less than -14.0 percent.<sup>8</sup> The impact of the crisis varied considerably across countries, depending on the initial health of the economy and the degree of integration with the international economy. Those countries with high initial GDP per capita and low employment rates, with no significant internal and external imbalances (i.e. public indebtedness and current account deficits) and without property bubbles have been less vulnerable. In addition, those countries with strong public finances in 2008 have been better able to respond to the crisis. Moreover, internationally-integrated economies have tended to experience stronger downturns, for example via linkages in the financial sector, international logistics or export-oriented manufacturing. Similarly, many smaller economies have been strongly affected, either because small economies are typically very open or because international investors shifted funds to larger economies (and currencies) that were perceived as more stable.

Nevertheless, most European countries had returned to positive real economic growth by mid/late 2009 or early 2010 (see Figure 1 and Table A3). The Commission's Interim Forecast in September 2010 revised earlier projections upwards.<sup>9</sup> This forecast is based on an assessment of the outlook for the seven largest EU Member States (France, Germany, Italy, the Netherlands, Poland, Spain and the United Kingdom) which together account for 79 percent of EU GDP. It estimates that EU27 GDP should grow at 1.8 percent in real terms in 2010 (up from a forecast of 1.0 percent in May 2010), with the highest rates seen in Germany and Poland (both estimated at 3.4%) but with Spain continuing to experience negative growth (-0.3 percent).

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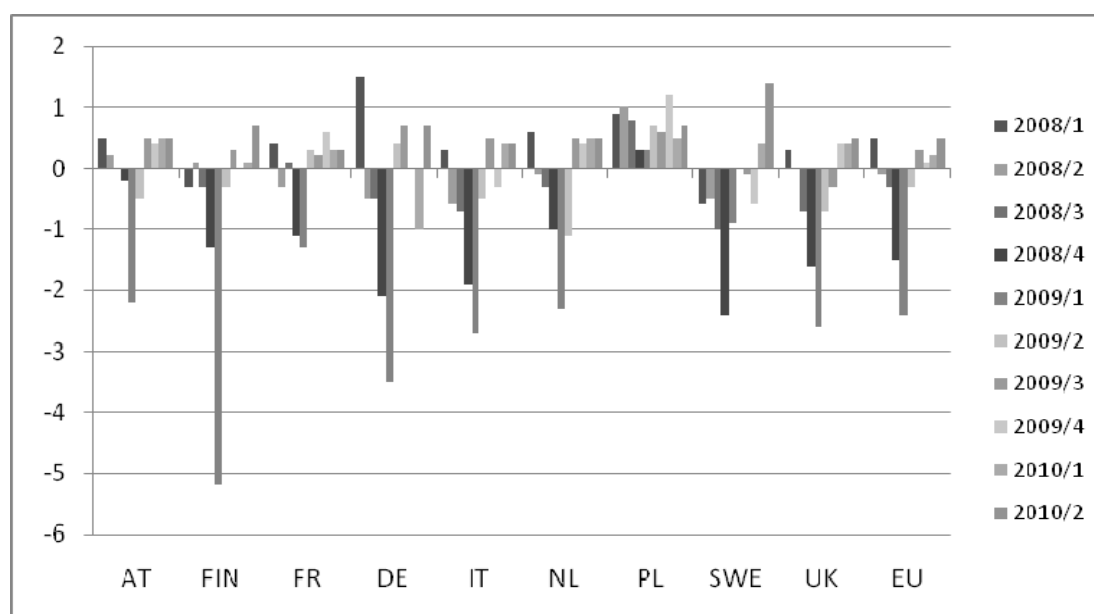
<sup>8</sup> European Commission (DG Economic and Financial Affairs) (2010) 'Spring 2010 Economic Forecast', *European Economy*, Brussels, p.182.

<sup>9</sup> European Commission (DG Economic and Financial Affairs) (2010) 'Interim Forecast September 2010', Brussels.

The impact of the crisis on the real economy, coupled with the strong fiscal response in many countries, has led to an increase in government expenditure and indebtedness in 2009 and 2010. The net borrowing of general government in the EU as a whole is estimated to be around 6.8 percent of GDP in 2009 and to be significantly higher in a number of individual Member States (e.g. Ireland, Greece, the United Kingdom, Spain, Portugal, Latvia, Lithuania and Romania) (see Table A4). Levels of gross public debt are also estimated to have risen strongly, reaching 73.6 percent for the EU as a whole in 2009, and exceeding 115 percent of GDP in Greece (and close to 100 percent in Belgium).

There remains some debate over the speed at which monetary and fiscal policies should be tightened in order to compensate for the stimulus packages since late 2008. A number of European countries already introduced stringent packages of spending cuts in 2009 (e.g. Bulgaria, Estonia, Hungary, Ireland, Latvia and Lithuania). Many other European governments are not only allowing the temporary crisis measures to end in 2010/2011 but have also announced additional steps to tighten their fiscal policy stance, mainly by cutting public expenditure rather than by raising taxes (e.g. France, Germany, Greece, Italy, Portugal, Romania, Spain and the United Kingdom). Nevertheless, levels of general government expenditure in most countries are forecast to remain significantly higher in 2010-11 than in 2005-08 (see Table A5). However, this information (taken from the European Commission's Spring 2010 Forecasts) do not take account of measures to tighten fiscal policy announced since May 2010.

Figure 1: Quarterly change in GDP (percentage change) in EoRPA countries, 2008/1 - 2010/2



See Table A3 for data. All data are forecasts.

Source: European Commission (DG Economic and Financial Affairs), Economic Forecasts, Spring 2009 and Spring 2010, Brussels.

### 2.3.2 Regional impact of the crisis

The regional impact of the crisis has varied in all countries due to the geographical distribution of sectors most strongly affected, notably export manufacturing, construction

and financial services. Initially, the impact was generally strongest in those regions with high shares of export-oriented manufacturing, as well as suppliers to export firms (which are sometimes located in lower cost but still relatively well-located regions). Although the financial sector has been strongly affected, it is typically concentrated in metropolitan centres with diversified economic bases, often including a range of other private and public services as well as manufacturing. Such metropolitan regions (e.g. Ile-de-France, London, Warsaw and Wien) have thus often seen only limited impacts in terms of increased unemployment rates.

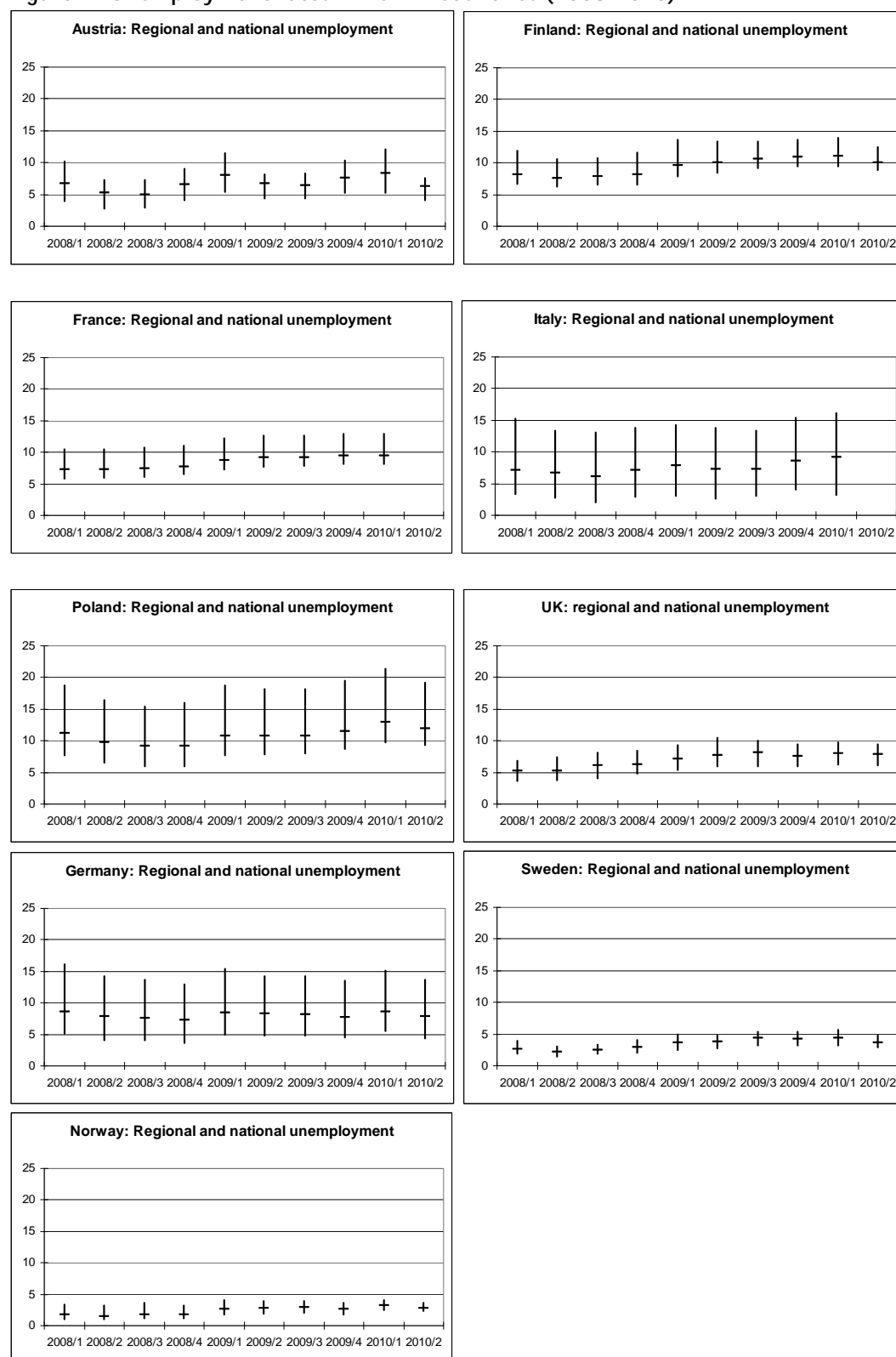
All EoRPA countries saw a rise in national unemployment rates between early 2008 and early 2010 (Table A6 and Figure 2). In most, the strongest changes were seen in 2009 but in a minority (Italy and Poland) the main rise in the national unemployment rate was instead seen between early 2009 and early 2010. A number of countries experienced increases of two or more percentage points in national unemployment rates (Finland, the United Kingdom, France, Poland and Italy) between early 2008 and early 2010, while others saw rises of over one percentage point (Sweden, Norway and Austria). In Germany, the national unemployment rate in Q2/2010 had returned to the level of Q2/2008, and Austria and Sweden also saw falls in 2010 relative to 2009.

In all countries, there is also a clear correlation between an increase in national unemployment rates and a fall in interregional disparities, although the scale of changes in regional dispersion varies across countries and, in some countries, disparities have remained relatively flat rather than fallen. The strongest increases in regional dispersion between early 2008 and early 2010 were seen in Italy and Norway and in both cases were driven by unemployment rises in the more dynamic regions (and in Norway reflect increases in regional unemployment rates from below an historically very low two percent in 2008).

The fall in regional disparities between Q2/2008 and Q2/2010 was driven by stronger increases in unemployment rates in those regions with lower rates in 2008, not least regions with strong export manufacturing sectors. These regions include:

- the north-eastern *Länder* of Niederösterreich and Oberösterreich in Austria;
- the western *Länder* of Baden-Württemberg, Bayern and Rheinland-Pfalz in Germany;
- southern and western Finland;
- in France, the eastern regions of Bourgogne, Franche-Comté and Rhône-Alpes, as well as the western regions of Pays de la Loire and Poitou-Charentes;
- the Centre-North regions of Piemonte, Lombardia, Emilia-Romagna and Umbria in Italy;
- the north-western regions of Pomorskie and Wielkopolskie, the southern region of Małopolskie and the north-eastern region of Podlaskie in Poland;

Figure 2: Unemployment rates in EoRPA countries (2008-2010)



Note: Data are either labour force survey unemployment rates (AT, FI, FR, IT, PL, UK) or registered unemployment rates (DE, NO, SE). Data for the Netherlands were not available. The vertical line shows the range between the regions with the highest and lowest unemployment rates. The horizontal line indicates the national unemployment rate.

Source: EPRC calculations based on data from the national statistical offices.

- the north-western regions of Wales and Scotland in the United Kingdom; and
- Aust-Agder, Vestfold, Oslo and Østfold in southern Norway.

Other regions also saw significant job losses in 2008-10, not least in export manufacturing sectors, but some already had relatively high unemployment rates in 2008 and so contributed less to the fall in regional dispersion, for example:

- Kärnten in southern Austria and Vorarlberg in western Austria;
- the north-western *Land* of Nordrhein-Westfalen in Germany;
- the north-eastern regions of Haute-Normandie, Lorraine, Nord-Pas-de-Calais and Picardie in France;
- the island region of Sardegna and the capital city region of Lazio in Italy;
- the western regions of Lubuskie, Dolnośląskie and Opolskie, as well as the north-eastern region of Warmińsko-Mazurskie in Poland;
- Södermanland county (west of Stockholm), Kronoberg county (in the south) and Västernorrland (in the centre-north) in Sweden; and
- the northern English region of Yorkshire & the Humber in the United Kingdom (with the strongest fall in 2009 seen in the central West Midlands region which, however, recovered strongly by 2010).

In a number of countries, there are concerns that the medium- and long-term effects of the crisis could be particularly severe in structurally weaker areas, partly because the closure of even a relatively small number of firms, or the loss of relatively few jobs, can have disproportionate effects in areas with fewer absolute numbers of businesses and job opportunities. Moreover, these areas are typically more dependent on public investment, public employment and welfare spending, and are thus likely to be more strongly affected by future fiscal consolidation efforts.<sup>10</sup> Although the unemployment rate has not yet risen strongly in some structurally weaker regions, this may be in part because people who lose their jobs in such regions are more likely either to exit the labour market or to migrate to another region than are people in more dynamic regions.<sup>11</sup> The impact of the crisis on structurally weaker areas has varied to date:

- In Austria, for example, Burgenland (traditionally seen as the *Land* with the weakest economic structure) was overtaken by Kärnten as the region with the highest unemployment rate in early 2009, partly because Burgenland has relatively

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<sup>10</sup> Genosko J, Köller M, Lintner P, Obermeier R, Rosenfeld M, Stiller S, Tanzmann L and Weber J (2010) *Regionalpolitik im Lichte der Wirtschafts- und Finanzkrise*, Akademie für Raumforschung und Landesplanung, Position Paper 82, Hannover; SVIMEZ (2009) *Rapporto SVIMEZ 2009 sull'economia del Mezzogiorno: Introduzione e sintesi*, SVIMEZ, Roma, 6.

<sup>11</sup> Banca d'Italia (2009) *Economie regionali: L'economia delle regioni italiane*, 2009/103, Rome, December 2009.

low manufacturing employment and also because other sectors, such as the construction sector, remained steady.<sup>12</sup>

- In Germany, although unemployment rates remain higher in all new *Länder* than in all old *Länder*, all the new *Länder* saw a fall in unemployment rates between Q2/2008 and Q2/2010 (especially Brandenburg, Mecklenburg-Vorpommern and Sachsen-Anhalt). Thus the fall in the national unemployment rate in early 2010 is due to the lower rates seen in the new *Länder*, as rates in most old *Länder* remained higher in Q2/2010 than in Q2/2008.
- The picture in southern Italy is more varied, with relatively strong increases in unemployment in some southern regions (e.g. Sardegna, Campania and Puglia) but not in others (Molise, Calabria and Sicilia). Nevertheless, the crisis is seen to have affected all Italian regions, in contrast to past exogenous shocks that primarily affected the Centre-North, because the South's economy has traditionally been more closed and dominated by the public sector.<sup>13</sup>
- In France, some structurally weaker regions (i.e. industrial restructuring regions in the north-east, such as Haute-Normandie, Lorraine, Nord-Pas-de-Calais and Picardie) also have relatively strong export manufacturing sectors and have thus been significantly affected by the crisis.

## 2.4 Regional resilience

The vulnerability of a region to an external shock depends not only on the quality scale/form of the shock but also on the existing strengths and weaknesses of the regional economy, for example in terms of initial productivity and employment rates, as well as the degree of sectoral specialisation. Similarly, regional resilience is conditioned by the broader national economic context, notably the extent to which the macroeconomic and structural policies, as well as the broader institutional environment, favoured economic growth and employment creation and limited external and internal balances.

As well as examining the extent of regional resilience in different countries, this section also looks to the future, drawing on European Commission projections on potential future challenges for regional development.

### 2.4.1 Regional economic fragility

Regional vulnerability to external shocks can be assessed via a number of relatively simple indicators (Table A7). The level of GDP per capita relative to the EU27 average reflects regional productivity, which in turn depends on the availability and use of human, physical and knowledge capital, as well as market access and the functioning of policy and institutional frameworks. Unemployment and employment rates relative to the EU average

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<sup>12</sup> Bernkopf H and Bruckbauer S (2010) *Wie kamen die Bundesländer durch die Wirtschaftskrise?* Wien: Bank of Austria.

<sup>13</sup> SVIMEZ (2009) *Rapporto SVIMEZ 2009 sull'economia del Mezzogiorno: Introduzione e sintesi*, SVIMEZ, Roma, 6.



indicate how well the regional labour markets are functioning and the degree to which human resources are well-used within the regional economy. Last, very low population density can increase vulnerability, not least because it is likely to mean that the loss of even a small number of medium-sized businesses can have serious economic effects.

Table A7 provides an overview of the number of relatively fragile regions in each country:

- Austria, Cyprus, Denmark, Ireland and the Netherlands have no regions in any of the four vulnerable categories;
- Luxembourg and Malta have weaknesses relating only to the employment rate, while Norway's only weakness relates to population density;
- Belgium, France, Germany and the United Kingdom have a significant number of regions that perform poorly on employment and unemployment indicators;
- Finland and Sweden have a number of regions with difficulties relating to both labour market and population density indicators;
- Spain, Greece and Italy have many regions with weaknesses relating to the labour market, as well as a minority of regions with low GDP per capita;
- Estonia and Slovenia show problems relating only to low GDP per capita, and Latvia and Lithuania almost fall into this category (as their respective unemployment and employment rates are only just above/below the EU27 rates);
- in the Czech Republic and Portugal, regional problems relate mainly to low GDP per capita, although a minority of regions also have labour market difficulties (and also low population density, in the case of Portugal); and
- lastly, in Bulgaria, Hungary, Poland, Romania and Slovakia, all or most regions perform badly on both GDP per capita and labour market indicators.

### ***2.4.2 Regional sectoral specialisation***

A further dimension of regional resilience to external shocks relates to the degree to which regional economies have diversified or narrow sectoral structures (Table A8).<sup>14</sup> Regions with stronger sectoral specialisation are generally more vulnerable to external shocks because many shocks are specific to individual sectors or types of activity. However, the extent of regional sectoral specialisation has fallen in most European countries since the 1950s, not least due to the expansion of public and private service sectors in all regions in this period.

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<sup>14</sup> Molle W (1996) 'The regional economic structure of the European Union: an analysis of long-term developments', in Peschel K (ed.) *Regional Growth and Regional Policy within the Framework of European Integration*, Physica-Verlag: Heidelberg, pp. 66-86; Hallet M (2000) 'Regional specialisation and concentration in the EU', *Economic Papers* 141, Brussels: DG Economic and Financial Affairs; Aiginger K and Leitner W (2002) 'Regional concentration in the USA and Europe: who follows whom?' *Weltwirtschaftliches Archiv* 138, pp. 1-28.

The percentage of national employment in the industrial sector is relatively high in most countries, varying from below 15 percent (in Greece, the Netherlands, the United Kingdom and Norway) to over 25 percent (in Bulgaria and Slovakia) or even over 30 percent (in the Czech Republic). Regional dispersion is relatively high in most countries, reflecting the tendency for industrial firms to concentrate in locations that are favourable due to their access to large markets, raw and processed inputs and qualified labour. Regional dispersion ranges from less than 0.20 in Bulgaria, Poland and the United Kingdom, suggesting a relatively even geographical spread of industrial employment, to over 0.35 (in Italy, Greece and Spain) and even to 0.53 in Romania, where industrial employment is much more strongly concentrated.

Construction accounts for a lower percentage of national employment in all countries, with more limited variation. The sector's share of total employment ranges from around six percent (in the Netherlands, Greece and Sweden) to over ten percent (in Slovakia, Portugal and Spain). The regional dispersion of employment is also generally lower than in the case of industrial employment, ranging from around 0.10 (in the Czech Republic, Finland, the United Kingdom and Hungary) to over 0.25 (in Germany, France and Portugal). In Germany, the percentage of construction employment is relatively high in a number of the new *Länder*, where this type of employment is in part-linked to public infrastructure rather than the development of private assets such as housing. Similarly, particularly high employment rates are seen in Corsica in France, and in the Azores, the Algarve and Madeira in Portugal.

In the financial and business services sector,<sup>15</sup> the share of national employment ranges from below eight percent (in Romania, Bulgaria and Greece) to over fifteen percent (in Sweden, the UK and the Netherlands). The level of regional dispersion is high in most countries, although it ranges from around 0.20 (in Italy and the Netherlands) to over 0.60 in countries where employment in this sector is strongly concentrated in the capital city region (in Romania, Slovakia and Bulgaria).

Public sector services<sup>16</sup> account for a relatively high percentage of national employment in all countries, although there is some variation in rates, ranging from less than twenty percent (in Romania and Greece) to over 35 percent (in Norway, Sweden, Denmark, Belgium and France). The extent of regional dispersion is generally low because many public services are provided in all regions, notably health, education and local government services. However, regional dispersion ranges from less than 0.10 (in Denmark, the Netherlands, Sweden, the United Kingdom, France, the Czech Republic) to around 0.20 (in Portugal and Romania). In Romania, the variation is due mainly to the relatively higher level of public sector employment in the capital city region. In Portugal, however, the above-average level of regional dispersion is not only due to capital city effects but also

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<sup>15</sup> Financial and business services include: financial intermediation; and real estate, renting and business activities.

<sup>16</sup> Public services include: public administration and defence, compulsory social security; education; health and social work; other community, social and personal service activities; private households with employed persons; extra-territorial organisations and bodies.

because of relatively low levels of public sector employment in the two northern regions (Norte and Centro).

### *2.4.3 Looking to the future*

The European Commission has undertaken a study of regional vulnerability to potential future changes, drawing on a series of projections of possible developments relating to the four categories of climate change, energy, globalisation, and demography.<sup>17</sup> The study includes a set of composite indices, each based on a number of different indicators, providing a 'score' for each NUTS 2 region (Table A9). All Member States except Denmark show relatively high vulnerability to change under at least one of these categories, although only Bulgaria scores highly in each.

The first index, relating to climate change, is based on an average of a number of different indicators relating to: (i) the projected change in regional population affected by river floods in 2001-2100; (ii) the regional population in coastal areas below five metres elevation in 2001 (and thus at greater risk of coastal erosion); (iii) the potential drought hazard (proxied by the average number of days with soil moisture deficit in the past 40 years); and (iv) the exposure of sensitive sectors to climate change (proxied by the regional share of agriculture and fisheries in GVA in 2005 and the regional share of employment in hotels and restaurants in 2005, and taking account of the likely impact of climate change in different climate zones). The index does not take account of any positive effects of climate change in some regions, nor does it allow for the fact that the effects of climate change are likely to be mitigated by various adaptation activities.

The projections suggest that climate change is likely to generate the strongest challenges in countries such as Greece, Bulgaria and Portugal, as well as Cyprus, Malta and Spain, and that all or most regions in these Member States will be affected. They also indicate that individual regions in some other Member States are also likely to be at risk due to climate change, for example related to increased probabilities of flooding (e.g. in Hungary and the Netherlands) or drought (Italy, especially the South).

The second index focuses on energy and is based on the following indicators: (i) regional energy consumption by households (including private transport) in 2004; (ii) regional energy consumption by freight transport, industry, services and agriculture in 2004; (iii) national carbon intensity of gross inland energy consumption in 2006; and (iv) national energy import dependency in 2006.

The projections suggest that the energy index does not have a significant regional dimension in any Member State. The figures suggest that the challenges relating to energy are likely to be greatest in all regions in Luxembourg, Cyprus, Bulgaria and Ireland but also in, for example, the Czech Republic, Greece, Italy, Poland, Slovakia, Estonia and Malta. Although the regional dispersion is relatively high in Sweden, the figures for all regions are low (ranging from 0 to 9).

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<sup>17</sup> European Commission (2008) *Regions 2020: An assessment of future challenges for EU regions*, Brussels.

The third index aims to estimate regions' capacity to engage positively with globalisation and draws on the following indicators: (i) estimated regional labour productivity in 2020; (ii) the estimated regional employment rate in 2020; (iii) the estimated percentage of the regional population with higher education qualifications in 2020; and (iv) the estimated percentage of the regional population without a complete secondary education in 2020.

The projections indicate that there is often a national dimension to the globalisation index, affecting all or most regions within an individual Member State, particularly where there are very high figures (Bulgaria, Greece, Italy, Hungary, Portugal, Romania, Latvia, Malta) or high figures (Czech Republic, Spain, France, Netherlands, Poland, Slovakia, Cyprus, Lithuania), although in some instances the index is lower in the case of the capital city region (e.g. France, Slovakia). In some countries, however, the national index is modest but some regions are more strongly affected, notably in Belgium (mainly the Walloon regions) and Germany (but with no clear divide between eastern and western regions), Ireland (Border/Midland/West), Austria (Burgenland and Vorarlberg), Finland (Åland) and the United Kingdom (e.g. Merseyside, West Wales and the Valleys, and Cornwall and the Isles of Scilly).

The final index relates to demographic issues and is based on the following indicators: (i) the estimated share of people aged 65 and over in the total regional population in 2020; (ii) the estimated share of people of working age in the total regional population in 2020; and (iii) the projected rate of population decline in the region by 2020. The projections suggest that demographic issues are of national importance in Bulgaria, Finland and Sweden. In other Member States, a relatively large number of regions are affected, notably in Germany (particularly eastern regions but also some western regions), Ireland, France and Italy. A smaller number of regions are affected in other Member States, including Greece, Spain, the Netherlands and Poland.

## 2.5 Summary

The pattern of regional disparities differs, depending on whether the analysis is based on a national or a Europe-wide perspective, and depending on the indicators used (e.g. GDP per capita, unemployment rates or disposable income). Nevertheless, economic data suggest that the level of disparities varies across countries. While some countries show low regional disparities on a number of different indicators, dispersion is high in others, not only in catching-up economies (where a rise in regional disparities may arguably be a temporary phenomenon) but also in wealthier countries where geographically differentiated patterns of structural change are less acute.

When comparing trends across European countries, however, it is clear that one of the main drivers of change in regional disparities in recent decades has been catching-up and associated structural change in central European economies. A related driver is the increased role of the service sector in all economies, which generally has the effect of reducing disparities as employment follows the population distribution. Similarly, increased economic integration at an EU and world level also affects regional disparities as it changes the relative attractiveness of individual regions and countries to different kinds of business investment and activity. Last, regional disparities have been shaped by institutional and

policy frameworks, not least public investment in infrastructure, human capital and support for business investment in structurally weaker regions.

While it is too soon to tell whether the 2008-10 financial and economic crisis will have a long-term impact on regional disparities, it is clear that there have been some temporary effects over the past two years. In most countries, the regions most strongly affected in 2009 were those with strong export manufacturing sectors or with many suppliers to export manufacturers. In contrast, the diversified sectoral structure of metropolitan regions has meant that many have seen only limited effects, despite the importance of the financial sector in such regions. The rise in unemployment rates in export manufacturing regions has led to a narrowing in interregional disparities in all countries, although to varying degrees, as some regions with low rates in 2008 have seen above-average increases in 2009 and/or 2010.

The impact of the crisis on structurally weaker regions has varied, depending in particular on their exposure to internationally traded sectors. Lagging regions may, however, experience stronger effects in the medium-to-long term, due to the disproportionate impact of the loss of even a small number of businesses or jobs in such regions, as well as the greater vulnerability of such regions to cuts in public expenditure and employment.

The extent of regional resilience to external shocks varies across countries, depending on the number of structurally weaker regions (e.g. with low GDP per capita, employment rates or population density), as well as on the degree of sectoral specialisation at a regional level. European Commission projections on potential future challenges suggest the need also to take account of other regional dimensions of vulnerability, particularly those relating to climate change, globalisation and demographic shifts.

Table 2: Changes in the regional problem

Austria	Regional disparities remain limited, although the western <i>Länder</i> and Vienna generally outperform the southern and eastern <i>Länder</i> . The main developmental challenges face relatively small mountainous areas or areas bordering the new Member States.
Belgium	While Flanders is one of the most prosperous economies in the EU, Wallonia continues to underperform in terms of GDP and employment. Sub-regional problems in Flanders relate to congestion and urban sprawl. Wallonia is seeing ongoing structural change in industrial and rural areas, with high levels of outward commuting and poor qualification levels in many areas.
Bulgaria	Bulgaria lags well behind the EU average in terms of GDP per capita. The South-Western Region (including Sofia) is the most prosperous region. All regions are undergoing industrial and agricultural restructuring and have poor infrastructure. Challenges are most severe in more peripheral, rural areas, where economic activities are most limited.
Cyprus	Regional development concerns focus on balanced territorial development and the reduction of disparities between urban and rural areas. Areas along the Green Line are under-developed, while many coastal areas have issues relating to intensive development linked to tourism.
Czech Republic	National prosperity remains low relative to the EU average. Regional disparities have sharpened along the east-west gradient in the economic downturn, following a period of relative stability. Prague and south-western regions outperform other regions, notably those undergoing industrial restructuring. Sub-regional disparities are also important.
Denmark	Limited problems (primarily capital area versus rest of the country). However, there is congestion in the main cities, while there are more limited opportunities for economic development in more remote rural areas and smaller towns.
Estonia	National GDP per capita is well below the EU average. Population and economic activity is concentrating the in the capital city Tallinn and, to a lesser extent, the city of Tartu. Other regions, especially in the south east and north east, have low population density and lower income per capita and employment levels. Other issues concern border and island regions.
Finland	Recent decades have seen a concentration of the population in the main cities, which continue to experience growth, while population density is very low in many other areas, particularly northern and eastern regions which also are characterised by less sectoral diversification and developmental challenges relating to peripherality.
France	Regional disparities have tended to fall over time, but some northern and eastern regions continue to experience industrial restructuring, and more peripheral rural areas face problems relating to out-migration, narrow economic structures and the provision of public services. A further concern is with the role of the Île-de-France region as an economic motor.
Germany	The remains a structural economic divide between the western and eastern <i>Länder</i> and, to a lesser extent, between northern and southern <i>Länder</i> . However, some cities in the new <i>Länder</i> have shown increased dynamism, while more peripheral rural areas continue to see problems relating to out-migration and limited business development.
Greece	Economic activities are strongly concentrated in the two main agglomerations (Attiki/Sterea Ellada and Thessaloniki), although some of the island regions also have strong economies. Other regions have much lower population density, fewer business opportunities and narrower sectoral structures.
Hungary	National GDP per capita is very low compared to the EU average. There is a long-standing development gap between the capital and the rest of the country, as well as more recent disparities between the more dynamic North-Western region versus the North East and South Transdanubia. Least-developed areas include border areas and more peripheral, rural areas.
Ireland	There remain disparities between Dublin/the South and more northern areas, although all areas have been badly affected by the financial crisis. The economic structure of northern areas remains narrower, and the prospects for development are weaker. Congestion and urban sprawl remain issues in Dublin.
Italy	There is a persistent, historically-rooted divide between the Centre-North and the South. Levels of income per capita, productivity and employment levels are significantly lower in the South. The current economic slowdown affects all regions, including the South (unlike previous recessions when the South appeared to be shielded more).
Latvia	National GDP per capita is less than 50% of the EU average. Population and economic activities are strongly concentrated in the capital region Riga, while many other areas have low population density and very limited economic activities. There are issues relating to insufficient physical infrastructure, human capital and innovative capacity in all areas.
Lithuania	National GDP per capita is just over half the EU average. Economic activities are concentrated in the three main cities (Vilnius, Klaipeda and Kaunas) which have the highest GDP per capita levels and living standards. The south-western areas, as well as eastern border areas, are generally the weakest. All areas face the challenge of catching up towards EU levels of prosperity.

Luxembourg	The regional 'problem' is limited due to the country's small size and high level of national prosperity. There are some issues associated with steel restructuring (south) and fragile agriculture (north), as well as to cross-border commuting.
Malta	GDP per capita is relatively low, compared to the EU average. The main internal regional challenge relates to the island of Gozo, which has significant accessibility problems, as well as a fragile environment and an economy based primarily on tourism and agriculture.
Netherlands	Regional disparities are limited, although the economic structure of the north is weaker, reflected in higher unemployment rates. The crisis has had a strong effect on the whole country but has had a mixed impact on different regions.
Norway	The main regional challenges concern: sparse population and peripheral areas with accessibility problems: the ongoing movement of population to urban centres; and issues linked to the industrial structure (mono-industry towns/over-dependence on primary industries).
Poland	The two main challenges relate to national convergence towards EU levels of development and internal interregional convergence. The capital city region and some western regions have seen good economic development in recent years but others, particularly eastern rural regions, continue to lag in terms of employment, productivity and income per capita.
Portugal	The traditional coastal/interior and north-south divides have become blurred due e.g. to increased economic integration with Spain, development challenges in peripheral areas, reduced infrastructural disparities. However, Grande Lisboa and Grande Porto continue to be the main engines of development.
Romania	GDP per capita is very low compared to the EU average. Key regional development concerns are: increasing disparities between Bucharest-Ilfov and other regions; chronic under-development in the east and south; ongoing industrial restructuring in many regions; and significant weaknesses, including dependence on subsistence agriculture, in the large rural areas.
Slovakia	National GDP per capita is relatively low despite catching-up since the mid 1990s. The position of the capital city in the extreme west contributes to the 'west-east' development gradient. Southern and eastern parts of the country are rural, with below-average economic productivity, high unemployment, spatial concentration of marginalised groups, and poor transport links.
Slovenia	National GDP per capita remains below the EU average. Economic activities are relatively concentrated in the capital city region which has above-average income per capita levels. The main disparities are seen at a micro-level, particularly in structurally weaker rural areas and eastern border areas which face demographic and employment problems.
Spain	GDP per capita is highest in the Madrid region and some northern regions (e.g. País Vasco, Navarra and Cataluña) and generally lower in southern and eastern regions. The crisis has affected the entire country but especially the Mediterranean regions and Castilla-la Mancha.
Sweden	Differences in regional living standards are limited, but the population and economic activities are strongly concentrated in the main urban areas, while population density is very low in more northerly regions. The crisis has impacted particularly on export-oriented, manufacturing regions.
United Kingdom	GVA per capita is higher in south-eastern regions and lower in north-western regions, including Northern Ireland, Scotland and Wales, although regional disparities in unemployment rates have narrowed over the past decade. Sub-regional socio-economic disparities are often significant, not least in wealthier regions such as London.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).





### 3. SPATIALLY-BLIND OR PLACE-BASED INTERVENTION: CONCEPTUAL DEBATES ON REGIONAL POLICY

#### 3.1 Introduction

The past two years have clearly been ones of major economic upheaval across Europe, with major intervention by government authorities in response to the financial and economic crises. As noted in Chapter 2, the impact of the crisis and the pace of recovery vary greatly between countries and, in some countries, between regions. This reflects factors such as the extent of the required housing-market correction, the size of the financial services sector, and the degree of internal and external imbalances.<sup>18</sup> The need to accelerate structural change and enhance national competitiveness has been common to many of the policy debates on dealing with the consequences of the crisis. Following the loosening of fiscal policy in 2009-10 in many countries, the focus has now turned in many cases to fiscal consolidation and cutting public expenditure (especially for welfare, pensions, healthcare and education) and labour market reforms. However, there are variations across countries, as some already cut spending in 2009, while others with stronger public finances are as yet not planning to tighten fiscal policy (e.g. Finland, Norway).

Regional development and the role of regional policy have generally not been prominent issues in these policy debates. Regional development policies and strategies often have a long-term perspective, in part linked to the timeframe of Cohesion policy programmes. Although spending on some regional policy instruments has changed, and new initiatives have been introduced in some countries, it is not evident that there has been major change to regional policy objectives (see Chapter 5). Nevertheless, academic and policy debates are currently questioning the conceptual framework for current regional policies and strategies.

This section briefly reviews recent literature putting forward arguments for spatially-blind versus place-based policies, the critiques of 'regional competitiveness' and the emerging thinking on 'regional adaptation'.

#### 3.2 The rationale for policy: spatially-blind vs place-based policies

The main conceptual debate in recent years concerns whether and how governments should respond to uneven spatial development. Since the late 1990s, theoretical work on the economics of location (termed the 'new economic geography' or NEG) has focused the attention of economists on the way that geography influences economic growth, in particular the spatial agglomeration of economic activity.<sup>19</sup> NEG models have provided a

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<sup>18</sup> European Commission (2010) 'Public Finances in EMU', *European Economy*, 4, May 2010, Directorate-General for Economic & Financial Affairs, Commission of the European Communities, Brussels.

<sup>19</sup> Krugman P (2010) *The new economic geography, now middle-aged*, Paper prepared for presentation to the Association of American Geographers, 16 April 2010, p.6; Venables A J (2010) *New Economic Geography*, Palgrave Dictionary of Economics, <http://www.dictionaryofeconomics.com/dictionary>; Fujita M and Krugman P (2004) The new economic geography: past, present and the future, *Papers in Regional Science*, 83, pp. 39-164.

stronger theoretical foundation for analysing the clustering of economic activity, showing that the key determining parameters are market size, trade costs and increasing returns linked to knowledge spillovers, input-output linkages, labour pooling or economies of scale. However, different studies show varying results, depending on the assumptions incorporated into specific NEG models. Some suggest that the strength of these centripetal forces makes interregional disparities inevitable, and possibly desirable (in that agglomeration benefits both core and periphery), with limited scope for countervailing action through policy intervention.<sup>20</sup> Others show that, as long as business costs are lower outside agglomerations, disparities may be low if interregional trade costs are either very high or very low because the advantages to businesses to agglomerate in the largest market are low in either case.<sup>21</sup>

This line of thinking underlies the World Bank's World Development Report 2009, which advocates government policies to support the concentration of economic activity and convergence of living standards. In a strong critique of regional policies, the report makes a powerful case for 'spatially-blind' policies.<sup>22</sup> It argues that area development policies have overemphasised geographic targeting, whether directed to urban or rural areas, lagging regions or remote areas, and that they fail on all of its performance criteria (see Table 3).

Table 3: World Bank Assessment of the performance of area development policies

Performance criteria	Reduce inequalities across regions (interregional equity)	Pro-poor? (interpersonal equity)	Avoid trade-off with spatial efficiency?
Institutions	Yes	Yes	Yes
Infrastructure	No	No	Yes
Incentives	No	No	No

Source: World Bank (2009) p. 259.

Instead, the World Bank advocates placing greatest emphasis on 'spatially-blind' institutions (e.g. common standards of public services such as education and health, flexible labour markets, portable pensions, strengthening property rights), in particular to increase migration possibilities. A second priority for the World Bank is investment in infrastructure to connect lagging and leading areas (transport connectivity, ICT). While accepting that the geographic concentration of economic activity may increase, this is thought to be outweighed by the effects on overall growth and income. In a third category of interventions, incentives are not highly regarded:

*European countries have a long history of using industrial policies to attract firms to lagging areas....A common theme in traditional regional policies focusing on taxes, subsidies and regulations is that they were mainly central government initiatives to create employment and provide infrastructure with the objective of*

<sup>20</sup> See for example Brakman S, Garretsen H, Gorter J, van der Horst A and Schramm M (2005) *New Economic Geography, Empirics and Regional Policy*, CPB Papers No.56, CPB Netherlands Bureau for Economic Policy Analysis, The Hague.

<sup>21</sup> Puga D (1999) The rise and fall of regional inequalities, *European Economic Review* 43, pp. 303-334.

<sup>22</sup> World Bank (2009) *Reshaping Economic Geography, World Development Report 2009*, The World Bank, Washington DC.

*dispersing (or fighting the concentration of) economic activity.....But for the most part, these incentives have not stimulated sustained growth in the lagging areas, imposing large costs on taxpayers.*<sup>23</sup>

The Report acknowledges that many European countries now focus more on 'soft' interventions, but it is sceptical of the results, citing the shortage of independent evaluation and insufficient attention to 'working with the market'.

The World Bank has aroused extensive debate, some of it highly critical. Much of the criticism is from economic geographers whose work has been largely ignored by the report. Objections have been made to the report's assumptions - such as the inevitability of uneven development, or the degree to which migration and development will reduce disparities in welfare at different spatial scales - and the insufficient attention given to factors such as regional institution building, regional innovation processes, the role of financial markets, or the social and environment implications of economic development.<sup>24</sup> Studies on the impact of interregional transport infrastructure links on disparities show very different results, e.g. as to whether they widen or reduce disparities.

A different conceptual approach starts from the premise that all regions have development potential. Recent analysis of regional economic trends over the period 1995-2005 by the OECD<sup>25</sup> notes that, while leading regions played an important role in national economic growth, a sizeable contribution to growth was made by lagging regions. Well-performing regions were found among urban, intermediate and rural regions. Indeed, a significant number of rural regions performed better than urban regions.

The OECD rejects the World Bank thesis for spatially-blind policies, arguing that a 'simple concentration of resources in a place does not necessarily translate into economies of agglomeration and new growth....and public policies to increase concentration are therefore not always the most appropriate option'.<sup>26</sup> Further, the OECD argues that there is no single development path or single factor that can explain performance across all regions: development varies between regions depending on their use of assets, the interactions between different stakeholders, and the way that synergies are exploited. The task for regional policy is to promote the growth of each region by mobilising local assets and resources so as to capitalise on their specific competitive advantages, rather than depending on national transfers and subsidies to help them grow.

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<sup>23</sup> *Ibid.*, pp. 253-255.

<sup>24</sup> Rigg J, Bebbington A, Gough K V, Bryceson D F, Agergaard J, Fold N and Tacoli C (2009) 'The World Development Report 2009 'reshapes economic geography: geographically reflections'', *Transactions of the Institute of British Geographers*, NS 34, pp. 128-136; Garretsen H and Martin R (2010) 'Rethinking (New) Economic Geography Models: Taking Geography and History More Seriously', *Spatial Economic Analysis*, 5(2), pp. 127-160; Hart G (forthcoming 2010) 'Redrawing the Map of the World? Reflections on the 2009 World Development Report', *Economic Geography*; Scott A (2009) 'Review of World Development Report 2009: reshaping economic geography', *Journal of Economic Geography*, 9, pp. 583-586.

<sup>25</sup> OECD (2009a) *Regions Matter: economic recovery, innovation and sustainable growth*, Organisation for Economic Cooperation and Development, Paris; OECD (2009b) *How Regions Grow: Trends and Analysis*, Organisation for Economic Cooperation and Development, Paris.

<sup>26</sup> OECD (2009a) p.14.

The policy thinking contained in the OECD reports draws not just on the new economic geography but also on bottom-up growth theories, especially on the sources and territorial distribution of innovation, and institutional theories seeking to explain the capacities of economies to adapt and innovate. These emphasise the importance of ‘place’ in explaining growth and the spatially-contingent economic and institutional factors underlying uneven economic development.<sup>27</sup> For developed economies, in particular, it has been argued that an understanding of the role of institutions in economic development needs to go beyond the ‘formal institutions’ highlighted by the World Bank to encompass also ‘informal institutions’ (the social norms, conventions, moral values that constrain or encourage private behaviour) and the interaction between formal and informal institutions.<sup>28</sup>

As set out cogently in the Barca Report, the place-specificity of natural and institutional resources requires interventions to be tailored to places - rather than being aspatial or targeted at sectors, as under traditional industrial policies or (more recently) rural policies.<sup>29</sup> A place-based policy approach is defined as:

*a long-term strategy aimed at tackling persistent underutilisation of potential and reducing persistent social exclusion in specific places through external interventions and multilevel governance. It promotes the supply of integrated goods and services tailored to contexts, and it triggers institutional changes. In a place-based policy, public interventions rely on local knowledge and are verifiable and submitted to scrutiny, while linkages among places are taken into account.....this strategy is superior to alternative strategies that do not make explicit and accountable their territorial focus, or even hide it behind a screen of self-proclaimed space-blindness, fail to integrate services, and either assume that the State knows best or rely on the choices and guidance of a few private actors. The lessons of the recent crisis reinforce this argument.*<sup>30</sup>

As acknowledged by Barca, the place-based policy approach is complex and risky. It assumes: a multi-level governance system whereby higher levels of government define strategic objectives; agreement on the contribution of each level/actor to implementation; the capacity of lower levels to express local knowledge and interests, and the scope to identify investment priorities; and the information flows and verification mechanisms to ensure accountability.

For regional policies, these are demanding requirements. They imply the existence of governance structures that can determine the optimal mix of investment priorities (infrastructure, human capital, innovation, R&D etc) as part of integrated development strategies that involve vertical coordination (between levels of government) and horizontal

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<sup>27</sup> Farole T, Rodriquez-Pose A, and Storper M (2009) *Cohesion Policy in the European Union: Growth, Geography, Institutions*, Working paper, European Commission.

<sup>28</sup> Rodrigues-Pose A (2010) *Economic geographers and the limelight: the reaction to the 2009 World Development Report*, Working Paper 2010/01, imdea ciencias sociales, Madrid; Williamson C R (2009) Informal institutions rule: institutional arrangements and economic performance, *Public Choice* 139, pp. 371-387.

<sup>29</sup> Barca F (2009) *An Agenda for a Reformed Cohesion Policy, A Place-Based Approach to Meeting European Union Challenges and Expectations*. Independent report prepared at the request of Danuta Hübner, Commissioner for Regional Policy.  
[http://ec.europa.eu/regional\\_policy/policy/future/pdf/report\\_barca\\_v0306.pdf](http://ec.europa.eu/regional_policy/policy/future/pdf/report_barca_v0306.pdf)

<sup>30</sup> *Ibid.*, p. xi.

cooperation between relevant economic and social actors at each level. It also necessitates citizens being involved in decision-making processes that influence the areas where they live and work.<sup>31</sup> The place-based approach also requires 'places' to be defined from a functional perspective as areas that are most appropriate for policy intervention - and which may not be congruent with regional or local administrative boundaries. More generally, a place-based approach - as put forward in the Barca Report - requires more transparency in the spatial allocation of public resources. The necessity for a greater understanding of the territorial impact of public expenditure decisions has again been demonstrated by recent research indicating how the goals of explicit regional policies can be counteracted by the intended and unintended consequences of non-governmental expenditure.<sup>32</sup>

### 3.3 From regional competitiveness to regional adaptation?

A further challenge in thinking about the future of regional policy concerns the response of policymakers to the changing external environment. The impact of the economic crisis - on top of longer-term issues such as climate change, energy security, and demographic change - has raised questions about the prevailing paradigm of regional policy and its focus on competitiveness.

The significance accorded to competitiveness at regional, urban and local scales has been subject to extensive debate for several years, in particular because of a lack of an agreed theoretical basis and definition and the consequent difficulties of evaluating policy interventions.<sup>33</sup> Among concerns raised about the policy goal has been a perceived 'convergence' of the policy responses adopted by countries and regions (potentially limiting consideration of other regional strategies), the appropriateness of the regional scale at which many competitiveness strategies are implemented, the dominant concern with GDP per head and productivity as measures of regional performance, the inadequate evidence that regional competitiveness policies are effective, and the implementation of policies by authorities or agencies that are not regionally accountable.<sup>34</sup> Other recent research has questioned the impact of regionalising responsibilities for economic development: cross-country analysis suggests that the decentralisation of policy responsibilities can reduce

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<sup>31</sup> For a wider critique of the 'limits to the region and the regional', see Hudson R (2010) 'Regions and Regional Uneven Development Forever? Some Reflective Comments upon Theory and Practice', *Regional Studies*, 41, pp. 1149-1160.

<sup>32</sup> Blažek J and Macešková M (2010) 'Regional Analysis of Public Capital Expenditure: To Which Regions is Public Capital Expenditure Channelled - to 'Rich' or to 'Poor' Ones?' *Regional Studies*, 44, pp. 679-696.

<sup>33</sup> See, for example, the collection of papers in Martin R, Kitson M and Tyler P (2006) *Regional Competitiveness*, Regional Studies Association, Routledge, London and New York. The book begins with the assertion that (p.1): 'the very notion of regional competitiveness is itself complex and contentious, and even though policymakers everywhere have jumped on the regional and urban competitiveness bandwagon, we are far from a consensus on what is meant by the term and how it can be measured: as is often the case, policy has raced ahead of conceptual understanding and empirical analysis'.

<sup>34</sup> Bristow G (2010) *Critical Reflections on Regional Competitiveness: theory, policy and practice*, Routledge, London and New York; Hudson R (2010) *op. cit.*

disparities but only under certain conditions, notably where the transfer of authority and resources occurs within a framework that ensures equity and efficiency.<sup>35</sup>

The implications of climate change present a fundamental and far-reaching challenge for policy. They demand an appreciation of regional development as being wider than economic performance and growth and pose the question of how sustainable development can be reconciled with regional competitiveness.<sup>36</sup> This has been heightened by growing concern about the capability of communities, cities, regions and countries to withstand or overcome the impacts of natural catastrophes, economic crises, terrorist attacks or other shocks. In the first instance, this means considering sources and drivers of growth that do not involve environmental degradation, and having a better understanding of the trade-offs between growth and environmental sustainability. It has also led to growing debate on the implications of regional vulnerability, particularly overspecialisation in particular sectors, goods or services.

The term 'regional resilience' has been used increasingly, either to mean long-term adaptation or short-term recovery from economic or environmental shocks - although some authors have been critical of the use of the term 'resilience'<sup>37</sup> on the basis that it focuses attention on the short-term, implies an equilibrium state and is decontextualised. Much of the recent research on regional adaptation and resilience draws on thinking about evolutionary approaches to economic geography concerned with the 'processes by which the economic landscape - the spatial organization of economic production, distribution and consumption - is transformed over time'.<sup>38</sup> From a policy perspective, the debate has focused on how to manage policy to take account of local specificities and contexts, at different scales (multi-scalar approaches from community interventions to macro-regions) and reappraising the balance between external and internal regional linkages. It has been argued that:

*Now there is an increasingly strong imperative to move towards more self-contained and sustainable models of regional and urban development, to create more resilient regions by maximising intra-regional flows and connections (in part to help close materials loops) and so move towards environmentally less damaging processes of production, exchange and consumption.*<sup>39</sup>

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<sup>35</sup> Rodriguez-Pose A and Ezcurra R (2009) 'Does Decentralization Matter for Regional Disparities? A Cross-Country Analysis', *SERC Discussion Paper 25*, Spatial Economics Research Centre, London; Ezcurra R and Pascual P (2008) 'Fiscal decentralization and regional disparities: evidence from several European countries', *Environment and Planning A*, 40, pp. 1185-1201.

<sup>36</sup> *Ibid.* See also Tomaney J (2009) *The Future of Regional Policy*, The Smith Institute, London.

<sup>37</sup> Hassink R (2010) 'Regional resilience: a promising concept to explain differences in regional economic adaptability?' *Cambridge Journal of Regions, Economy and Society*, 3(1), pp. 49-58; Pike A, Dawley S and Tomaney J (2010) 'Resilience, adaptation and adaptability', *Cambridge Journal of Regions, Economy and Society*, 3(1), pp. 59-70.

<sup>38</sup> Boschma R and Martin R (2007) Editorial: Constructing an evolutionary economic geography, *Journal of Economic Geography*, 7, pp. 537-548. See other papers in this journal issue for the different conceptions of 'evolutionary economic geography'.

<sup>39</sup> Hudson R (2008) 'Material matters and the search for resilience: rethinking regional and urban development strategies in the context of global environmental change', *International Journal of Innovation and Sustainable Development* 3(3/4), pp. 166-184.

These arguments have been deployed to propose another ‘new paradigm’ of regional policy, with regional strategies that place more emphasis *inter alia* on local identity, the utilisation of local knowledge, a greater role for embedded forms of economic activity, labour and resources, stronger emphasis on inter-regional interdependencies and distribution of resources, and support for business adaptation.<sup>40</sup>

### 3.4 Summary

The main conceptual debate in recent years concerns whether and how governments should respond to uneven spatial development. The World Bank’s World Development Report 2009 advocates government policies to support the concentration of economic activity and convergence of living standards. In a strong critique of regional policies, the report makes a powerful case for ‘spatially-blind’ institutions and infrastructure investment. A different conceptual approach starts from the premise that all regions have development potential. The OECD, for example, maintains that the task for regional policy is to promote the growth of each region by mobilising local assets and resources so as to capitalise on their specific competitive advantages, rather than depending on national transfers and subsidies to help them grow. Furthermore, the place-specificity of natural and institutional resources requires interventions to be tailored to places. However, these are demanding requirements for regional policy.

A further challenge in thinking about the future of regional policy concerns the response of policymakers to the changing external environment. The impact of the economic crisis - on top of longer-term issues such as climate change, energy security, and demographic change - has raised questions about the prevailing paradigm of regional policy and its focus on competitiveness. The term ‘regional resilience’ has been used increasingly, either to mean long-term adaptation or short-term recovery from economic or environmental shocks. These arguments have been deployed to propose another ‘new paradigm’ of regional policy, with regional strategies that place more emphasis on, *inter alia*, local identity, the utilisation of local knowledge, a greater role for embedded forms of economic activity, labour and resources, stronger emphasis on inter-regional interdependencies and distribution of resources, and support for business adaptation.

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<sup>40</sup> Tomaney J (2009) *op. cit.*; Bristow G (2010) ‘Resilient regions: re-‘place’ing regional competitiveness’, *Cambridge Journal of Regions, Economy and Society*, 3(1), pp. 153-167.





## 4. STRATEGIC REVIEWS AND CRISIS RESPONSES: DEVELOPMENTS IN REGIONAL POLICY, 2009-10

### 4.1 Introduction

Over the past 12-18 months, the main focus of policymaker attention has been the macro-economic environment. As countries have emerged from the crisis, with the resumption of growth, policy attention has shifted from stimuli for consumer demand and investment to dealing with the consequences of the crisis. In many countries, the priority is fiscal consolidation to reduce budget deficits and accumulated debt. Measures are also being introduced to improve competitiveness.

For the most part, regional policy remains focused on long-term objectives, and the degree to which there have been policy changes varies greatly. In some countries, the policy cycle has involved a reappraisal of policy goals and institutional arrangements as part of regular 4-6 year reviews of regional policy. In other countries, policy changes have been dictated by different government responses to the economic crisis (cuts in funding, or new programmes or measures). In a few cases, the future direction of policy is still uncertain.

The following sections provide an overview of the main regional policy developments (summarised in Table 4). The review begins with those countries where new legislation and strategies have been introduced (Finland, Norway, Bulgaria), followed by countries where new policy or strategic thinking is in progress (Austria, France, the Netherlands, Poland, Romania and Malta) and those countries where policy is in a state of flux because of economic and/or political pressures (Greece, Italy, the United Kingdom, Ireland). The review then considers those countries where there has been some recalibration of strategies or resources (Belgium, Luxembourg, Denmark, Sweden, Germany) and finally covers the remaining countries where changes to policy design or delivery have been less significant (Spain, Portugal).

### 4.2 New legislation and strategies

The two countries where the changes to regional policy have been most substantial are two Nordic countries: Finland, where a new regional development strategy and reform of regional governance have been introduced; and Norway, where a White Paper has placed more emphasis on local development. A third set of changes is associated with recent regional development legislation in Bulgaria.

Long-term changes were announced in Finland,<sup>41</sup> with the adoption of a new, long-term regional development strategy '2020'. The strategy sets out a vision of the regional development situation in 2020 and associated development principles and strategic priorities. It continues to underline the importance of developing all of the Finnish regions but recognises that there must be special instruments for those regions that have weaker

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<sup>41</sup> Vironen H (2010a) 'A new strategy and governance structure: regional policy developments in Finland, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 4, EoRPA Paper 10/2, European Policies Research Centre.

development potential. There is a perceived need to review instruments more regularly in response to global changes. Thus, while the centre of expertise programme continues broadly unchanged, the new KOKO programme merges the former regional centre programme, the regional component of the rural programme, and the local and regional implementation of the island programme. Innovation has become an increasingly important part of regional development activities. A new regional governance structure was also launched at the start of 2010, rationalising the number of regional authorities responsible for regional development from six to two, clarifying administrative responsibilities and paving the way for better coordination of regional and national objectives.

In Norway,<sup>42</sup> prior to the elections of September 2009, a White Paper was published in April 2009,<sup>43</sup> providing an ‘action plan’ for the new government. The White Paper reaffirmed the existing goals of district and regional policy, ‘to promote comparable living conditions across the entire country, and uphold the main features of existing Norwegian settlement patterns’. However, it placed a stronger emphasis on bottom-up growth and community development, reflecting the Ministry of Regional Development’s analysis that the implementation of national and county policy measures depended on capacity at the local (municipal) level for effective implementation. Among several measures, a new programme (Local Development in Municipalities, *LUK*) has been introduced to improve the competencies at local level, and a second new programme (*Bolyst*) aims to encourage local people or organisations to improve the attractiveness of localities.

Among the EU12 Member States, the most recent legislative change was in Bulgaria, where a new Regional Development Act was adopted in 2008 to regulate the planning, programming, management, support, monitoring, control and assessment of conducting government regional development policy.<sup>44</sup> Oriented heavily towards ensuring effective management of Cohesion policy, the Act amended the territorial scope of NUTS 2 regions where Structural Funds are targeted. It also involved organisational changes to facilitate an integrated approach to programming and implementation of EU and national funds, including the establishment of regional co-ordination committees to ensure the regional coordination of Operational Programmes. A new regional development strategy is expected for 2010, but it has not yet been formally adopted by the government.

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<sup>42</sup> Yuill D (2010a) ‘Focusing on bottom-up growth: regional policy developments in Norway, 2009-10’, in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 18, EoRPA Paper 10/2, European Policies Research Centre.

<sup>43</sup> St.meld.nr.25 (2008-2009) *Lokal vekstkraft og framtidstru: Om distrikts- og regionalpolitikken*. An English summary entitled *Local growth and hope for the future* is available at <http://www.regjeringen.no/upload/KRD/Vedlegg/REGA/Dok%20til%20meldinga%202009/Local%20growth%20and%20hope%20for%20the%20future.pdf>, accessed 27 July 2010.

<sup>44</sup> Regional Development Act, State Official Journal No 50/2008, Sofia. See also the EU12 report: McMaster I and Mirwaldt K (2010) ‘Diverse impacts of the economic crisis: regional policy developments in the EU12, 2009-10’, in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 17, EoRPA Paper 10/2, European Policies Research Centre.

### 4.3 Planned policy reforms and strategic changes

In several other countries, major strategic changes are in the pipeline. New legislation, concepts or plans have either been put forward for discussion or are anticipated over the next year in Austria, the Netherlands, Poland, France, Romania and Malta.

In Austria,<sup>45</sup> the strategic revisions have a long-term perspective. Redrafting of the Austrian Spatial Development Concept (ÖREK) - the main Austrian domestic strategic document - is expected to incorporate several new regional policy themes, including climate change, demography and resources. New issues were also identified in the context of the 'Scenarios 2030' project run by the Austrian Spatial Planning Conference (ÖROK) from 2006 to 2009.<sup>46</sup> Under this project, the regional problem was partly considered through new 'thematic lenses' such as migration, local-level cooperation and services of general interest. In all three areas, policymakers identified a need for territorial responses, not least because these themes do not automatically fall under the responsibility of a dedicated institution. Another new topic is the resilience of regions (see Chapters 2.4 and 3.3), an issue of increasing interest to policymakers in the context of the recent economic crisis. The revision of the ÖREK was launched in late 2009, and approval of the new spatial development concept is expected for 2011.

Rethinking the conceptual basis for policy is at the heart of recent developments in Poland,<sup>47</sup> where a new regional policy model has been under development for the past two years. In 2010, this included new drafts of the National Strategy for Regional Development (NSRR) and the National Spatial Policy Concept (KPZK), although still under the legislative framework of the 2006 Regional Development Act.<sup>48</sup> The overall approach brings together efficiency aims (strengthening the competitive potential of the regions at national and international scales) and equity aims (preventing excessive and socially and politically unacceptable disparities between and within regions). Key to this is a 'polarisation and diffusion' model, which aims to stimulate competitiveness in the fastest growing areas while creating mechanisms for the diffusion of development processes to other parts of the country. The principle of territorial cohesion is also emphasised, understood as the establishment of functional relationships between regional centres and their surrounding areas, and action to prevent marginalisation of least-developed areas. The strategy has several conceptual elements: emphasis on territorial potential; the development of an integrated policy for the development of a given territory; decentralised approaches to

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<sup>45</sup> Kah S (2010) 'Rethinking strategic direction and thematic scope: regional policy developments in Austria, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 1, EoRPA Paper 10/2, European Policies Research Centre.

<sup>46</sup> ÖROK (2008) *Szenarien der Raumentwicklung Österreichs 2030. Materialienband*, ÖROK-Schriftenreihe 176/I, Wien; ÖROK (2009) *Szenarien der Raumentwicklung Österreichs 2030. Regionale Herausforderungen und Handlungsstrategien*, ÖROK-Schriftenreihe 176/II, Wien.

<sup>47</sup> Ferry M (2010) 'Rethinking concepts and strategies: regional policy developments in Poland, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 16, EoRPA Paper 10/2, European Policies Research Centre.

<sup>48</sup> Ministerstwo Rozwoju Regionalnego (2010) *Krajowa Strategia Rozwoju regionalnego 2010-2020: Regiony, Miasta, obszary Wiejskie*, Warsaw; Ministerstwo Rozwoju Regionalnego (2010) *Koncepcja Przestrzennego Zagospodarowania Kraju 2030 - Projekt*, Warsaw (mimeo).

policy development and delivery (including an important role for the regional level); emphasis on the selective concentration of activities and investments; and a differentiated approach to various types of territory (according to social, economic and environmental conditions and understood in functional terms).

The review of regional policy in the Netherlands<sup>49</sup> appears to be leading in the direction of concentration and rationalisation. The current phase of Dutch spatial development policy runs from 2007-10, based on the 'Peaks in the Delta' approach.<sup>50</sup> This has involved: a refocusing of policy away from traditional problem regions in the north and towards economic priorities in all regions; more selective place-based policy interventions targeted at regional strengths of national interest; and a move from an instrument-based approach (regional aid, industrial estates etc.) to geographic, programme-based policymaking. Because of political uncertainties, it has not been possible to finalise central-provincial government negotiations on the 2011+ policy approach, and the national and regional governments have therefore decided to extend the Peaks programme by one year. The Dutch Ministry of Economic Affairs and the regions will be considering how best to take forward its focus on clusters of national importance. There are likely to be fewer such 'peaks' and stronger links with national innovation programmes, reflecting the perceived need to concentrate and streamline policy support. The Ministry is particularly focused on the economic development of the 'mainports' (Schiphol airport and the port of Rotterdam) and the 'brainport' (in the South-East, centred on Eindhoven), and the 'greenports' cooperation with the Ministry of Agriculture, Fisheries, and Nature Preservation.

By contrast with the Netherlands, France<sup>51</sup> is in the middle of a phase of policy implementation, but policy reviews are giving consideration to new directions for the longer term. The main French regional policy instrument is the State-region project contracts (CPER), which run from 2007 to 2013. These are well underway, with spending accelerated as part of the recovery plan launched at the February 2009 inter-ministerial meeting for territorial development and competitiveness (CIACT). Currently, a mid-term review of the contracts is being carried out. DATAR also launched a new and more strategic approach to forward-looking policy-making in October 2009 (*Territoires 2040*).<sup>52</sup> More generally, the division of responsibilities between territorial authorities is being debated, and implementation of the General Revision of Public Policies (RGPP) continues in pursuit of greater efficiency. Recent changes to policy instruments have been mainly associated with the crisis: easing access to the main regional aid (the PAT); amending the regional aid

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<sup>49</sup> Yuill D (2010b) 'Reviewing the future of the "peaks": regional policy developments in The Netherlands, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 11, EoRPA Paper 10/2, European Policies Research Centre.

<sup>50</sup> Ministry of Economic Affairs (2004) *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004 (Ministerie van Economische Zaken, *Pieken in de Delta: Gebiedsgerichte Economische Perspectieven*, The Hague, July 2004). This policy memorandum is available in English at <http://appz.ez.nl/publicaties/pdfs/04I26.pdf>

<sup>51</sup> Gross F (2010) 'Focusing on regional strengths in times of structural change: regional policy developments in France, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 5, EoRPA Paper 10/2, European Policies Research Centre.

<sup>52</sup> DIACT (2009) *Une nouvelle ambition pour l'aménagement du territoire*, Délégation interministérielle à l'aménagement et à la compétitivité des territoires, Paris.

map; launching an Action Plan for Rural Territories; and modifying the list of competitiveness poles.

In Romania,<sup>53</sup> a Strategic Concept of Territorial Development up to 2030 is to be completed and launched by the end of 2010.<sup>54</sup> It reflects Romania's contribution to the EU Green Paper on Territorial Cohesion and addresses the country's integration in European spatial structures through the promotion of regional identity, competitiveness, territorial cohesion, and sustainable territorial development. The expected outcomes are improved coherence between cohesion and competitiveness goals at the territorial level and support from the territorial allocation of EU funding.

Lastly, sustainability is the key theme of a new strategic plan for the island of Gozo, the main focus of development policy in Malta.<sup>55</sup> The plan - *Eco Gozo: A Better Gozo* (2010-2012) - foresees the development of the island as an eco-region. The report contains plans to draw on the island's assets and transform it into an ecological island, with sustainability as the core value driving development. The country's 2010 budget refers to the commitment of €25 million to the Eco-Gozo project for three years until 2012, with a €5 million allocation to launch the process in 2010.

#### 4.4 Regional policy in flux

As noted earlier, the economic crisis has changed the parameters for many aspects of government intervention. This is particularly the case in Greece, Italy, the United Kingdom and Ireland, where regional policy is currently in a period of uncertainty as a result of economic and political changes.

The most serious effects of the crisis are evident in Greece,<sup>56</sup> where the government is confronted with a very high government deficit, the need for external financial support and continued contraction of the economy. Major debt reduction initiatives have been initiated, affecting public spending, as well as reforms of pensions, healthcare, taxation, and tax administration. The impact on development policy spending is still emerging, but there is no doubt that it will be negatively affected. For example, the Public Investments Plan for 2010, initially budgeted at €10.3 billion, was reduced by €500 million, followed by a second cutback of the same size, and a third reduction will be considered if public revenues fail to increase by the end of the year. Following elections in 2009, two major changes are being made to the legal framework governing the implementation of policies at central and regional levels. First, new legislation was developed to modify the management of the National Strategic Reference Framework (NRSF), in order to accelerate spending. Second, a major reform of the public sector administrative structure has been initiated (the so-called

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<sup>53</sup> McMaster I and Mirwaldt K (2010) *op. cit.*

<sup>54</sup> *Conceptul Strategic de Dezvoltare Teritoriala Romania 2030*, Ministry of Regional Development and Tourism, Bucharest.

<sup>55</sup> McMaster I and Mirwaldt K (2010) *op. cit.*

<sup>56</sup> Chorafa V (2010) 'Dealing with the consequences of the economic crisis: regional policy developments in Greece, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 7, EoRPA Paper 10/2, European Policies Research Centre.

‘Kallikratis Plan’) to create larger, more powerful and efficient municipalities (with new powers and resources) and self-government regions with important responsibilities<sup>57</sup>.

In Italy,<sup>58</sup> numerous changes to policy interventions, resource allocation and institutional arrangements also leave domestic policy in a state of uncertainty. Cuts and redeployments were made to the domestic regional policy budget in 2008 and 2009, and further reprogramming of the Fund for Underutilised Areas (FAS) is planned to concentrate funding on strategic infrastructure. The implementation of some key measures, such as a law on fiscal federalism, is still to be agreed, and the introduction of new policy instruments (development contracts, scheme for urban areas) has been delayed. Delays have also affected the launch of a new Plan for the South (including the establishment of a Bank for the *Mezzogiorno*).<sup>59</sup> A preferential fiscal regime (*fiscalità di vantaggio*) and ‘zero bureaucracy zones’ for the South have been announced in the recent anti-crisis initiative, but are still not operational. A reallocation of political responsibility has taken place, with a transfer of competence for overseeing regional policy from the Minister of Economic Development to the Minister of Regional Affairs. Lastly, a parliamentary inquiry on the effectiveness of regional policy has been launched.

Regional policy is also in flux in the United Kingdom.<sup>60</sup> Following the May 2010 General Election and subsequent creation of a Conservative-Liberal Democrat coalition government, a major deficit reduction programme was launched, with cutbacks in departmental spending of 20 percent or more. As yet, the new government’s approach to regional policy is still evolving; White Papers on national and sub-national economic growth are expected to be published alongside (or soon after) the UK Government’s Comprehensive Spending Review on 20 October 2010. The Review is being led by the Treasury, and it will set overall spending limits that the White Papers must reflect in their content. In the interim, sweeping changes are being made to the regional policy delivery framework in England in the pursuit of further decentralisation. Most notably, Regional Development Agencies are to be abolished. In their place, the government has invited local businesses and councils to develop their proposals for Local Enterprise Partnerships (LEPs). Two new initiatives with a regional element announced in June 2010 are: a reduction in employer National Insurance Contributions (NICs) for new businesses starting-up in targeted areas of the UK (to be launched in September 2010); and the creation of a Regional Growth Fund in England (on which a consultation has been taking place) in 2011-12 and 2012-13 to support increases in business employment and growth.<sup>61</sup> The Devolved Administrations in Scotland, Wales and

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<sup>57</sup> Law 3852/2010, New Architecture of Governance and Decentralised Administration - Kallikratis Programme. <http://www.ypes.gr/el/Regions/programma/> (in Greek).

<sup>58</sup> Polverari L (2010) ‘Policies in flux: regional policy developments in Italy, 2009-10’, in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 9, EoRPA Paper 10/2, European Policies Research Centre.

<sup>59</sup> [http://www.governo.it/GovernoInforma/Dossier/banca\\_mezzogiorno/index.html](http://www.governo.it/GovernoInforma/Dossier/banca_mezzogiorno/index.html); Ministero dell’Economia e delle Finanze (2010), ‘*Banca del Mezzogiorno S.p.A., Documento di sintesi del progetto*’, Rome, 11 March 2010.

<sup>60</sup> Ferry M and Michie R (2010) ‘Radical policy and institutional reform: regional policy developments in The United Kingdom, 2009-10’, in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 15, EoRPA Paper 10/2, European Policies Research Centre.

<sup>61</sup> HM Government (2010) *Consultation on the Regional Growth Fund*, Department for Business Innovation & Skills, Communities & Local Government, HM Treasury, London.

Northern Ireland pursue their own economic development strategies. Although they are subject to the same pressures on public spending, and rationalisation of administration, there have as yet been no radical changes to either policies or institutional arrangements. An exception is a new policy document published by the Welsh Assembly Government,<sup>62</sup> which heralds a move away from a culture of direct business support, with the Single Investment Fund being reallocated to strategic infrastructure projects and six key sectors.

Again as a result of the economic crisis, Ireland<sup>63</sup> faces a serious fiscal challenge due to the significant gap between domestic expenditure and revenue. For 2009, the Exchequer deficit was forecast to be in the region of €26 billion.<sup>64</sup> As a result, the government has undertaken numerous and substantial cuts in spending across a wide range of policy areas, including regional economic development. To date, key measures to address the economic situation are nationally, as opposed to regionally, targeted, and the policy focus has been on developing centres of growth and boosting capacity in all regions. However, shifts in policy priorities and funding are impacting upon the ways in which regional development disparities can be addressed. For instance, spending on transport, which is viewed as important for boosting the accessibility of lagging regions in the Border Midland and Western (BMW) region, has experienced one of the largest reductions in National Development Plan (NDP) funding, decreasing by 24 percent in 2009.

#### 4.5 Recalibrating existing strategic priorities and resources

The degree of policy change has been less significant in the remaining EU countries. The main policy objectives, spatial coverage, instruments and administrative arrangements remain largely unchanged. Nevertheless, in several cases, the economic crisis has led to a re-assessment of current strategies, with adaptation or ‘recalibration’ of strategic priorities to ensure that they maximise opportunities for growth, innovation and sustainable development, or with adjustments to the level of resources. This applies particularly to Belgium, Luxembourg, Denmark, Germany and Sweden.

In Belgium,<sup>65</sup> regional development strategies have been reviewed in both of the main parts of the country over the past two years in response to the crisis. In *Flanders*, an action plan - the Pact 2020 - was launched in January 2009 to implement the 2006 strategic document *Flanders in Action (Vlaanderen in Actie, VIA)*. The policy focus on innovation and entrepreneurship was re-emphasised, with strategic objectives and key projects identified

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<http://www.bis.gov.uk/assets/biscore/regional/docs/c/10-1078-consultation-regional-growth-fund.pdf>

<sup>62</sup> Welsh Assembly Government (2010) *Economic renewal: a new direction*, July 2010. <http://wales.gov.uk/docs/det/report/100705anewdirectionen.pdf>

<sup>63</sup> McMaster I (2010) ‘Crisis, cuts and concentration: regional policy developments in Ireland, 2009-10’, in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 8, EoRPA Paper 10/2, European Policies Research Centre.

<sup>64</sup> Department of Finance (2009) *Ireland's National Strategic Report*, December 2009. <http://www.finance.gov.ie/documents/publications/reports/2010/Irlstratrep.pdf>

<sup>65</sup> Gross F and Mirwaldt K (2010) ‘New action plans for old challenges: regional policy developments in Belgium, 2009-10’, in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 2, EoRPA Paper 10/2, European Policies Research Centre.

by an inter-ministerial working group. Policy change has mostly concerned the reduction and simplification of aid schemes and the promotion of business support, partly also in response to the economic crisis. With a view to strengthening policy coordination, the Agency for Economy and the Flemish Enterprise Agency (VLAO) were merged to become Flanders Enterprise (*Agentschap Ondernemen*). In *Wallonia*, the strategic policy document governing regional policy<sup>66</sup> was updated at the start of 2010 with the adoption of the second, 'green' Marshall Plan (*Plan Marshall 2.vert*). The new plan builds on the previous strategic priorities but with a stronger focus on sustainable development. Other policy developments in Wallonia include minor changes to the clusters and competitiveness poles programmes and further steps towards administrative simplification.

The theme of competitiveness - specifically responsiveness to innovation and productivity - is also highlighted in the Luxembourg<sup>67</sup> National Plan for Innovation and Full Employment.<sup>68</sup> This reflects the recent trend in economic development support, which is increasingly focusing on R&D activities. In June 2009, a law was passed on the promotion of research, development and innovation, offering various types of aid for young and innovative firms, particularly for SMEs, and establishing an 'Innovation Fund' for the promotion of research, development and innovation in the private sector.

Similar changes to instruments have taken place in Sweden<sup>69</sup> where some new shorter-term initiatives have been launched in the context of developing regional innovation systems, facilitating access to services, improving regional-level work with growth issues, and improving opportunities in the cultural and creative industries. Organisationally, the regions have been given increased responsibility for physical planning processes through the regional development programme. These changes do not affect the fundamental policy objectives and strategic priorities of Swedish regional policy. However, the policy has been subject to review processes over the past year, mainly through the strategic evaluation of the Swedish National Strategic Reference Framework (NSRF), the OECD's Territorial Review of Sweden, and as part of the Government's Communication to the Parliament on the future of the regional growth policy. Further, following the adoption of the national Rural Development Strategy in March 2009, recent policy-thinking has focused on the need to include urban issues in regional growth activities.<sup>70</sup>

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<sup>66</sup> Gouvernement Wallon (2009) *Plan Marshall 2.vert, Viser l'excellence*, 17.09.2009.

<sup>67</sup> Mirwaldt K (2010) 'From regional aid to R&D: regional policy developments in Luxembourg, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 10, EoRPA Paper 10/2, European Policies Research Centre.

<sup>68</sup> Ministre de l'Economie et du Commerce extérieur, Propositions d'ordre général du Ministre de l'Economie et du Commerce extérieur pour l'amélioration de la compétitivité nationale, en vue du Comité de coordination tripartite, Version du 30 juin 2010.

<sup>69</sup> Vironen H (2010b) 'Reinforcing innovation, entrepreneurship and growth: regional policy developments in Sweden, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 14, EoRPA Paper 10/2, European Policies Research Centre.

<sup>70</sup> Regeringens skrivelse, 'Strategiskt tillväxtarbete för regional konkurrenskraft, entreprenörskap och sysselsättning', 27 May 2010, p. 10.



The relatively new legal, organisational and financial framework for regional policy in Denmark<sup>71</sup> is also stable, and the six Regional Growth Funds continue to plan and implement regional development activities, drawing on EU, national and local funding. The key policy issue that has emerged during 2010 concerns the spatial dimension of regional development support. First, a Renewal Fund (*Fornyelsesfonden*) was established as part of a new stage of the Globalisation Strategy, with one of its three priority areas being to support structural change in localities that have been hit hard by the current economic crisis.<sup>72</sup> Second, in spring 2010, a period of intense political debate on the spatially-uneven impact of the economic crisis - accompanied by unprecedented media interest in regional issues, including a two-week campaign by the Danish Broadcasting Corporation under the heading 'The Break-up of Denmark' resulted in new political initiatives aimed at addressing inequalities between and within regions. As yet, this has not been translated into new policy action.

The recent changes to regional policy in Germany<sup>73</sup> have also been induced by the crisis. First, in late 2008, the level of federal funding for the regional policy 'joint task' (GRW) was increased by €200 million via a Special Programme (*GRW-Sonderprogramm*), although the amount of funding was subsequently reduced to €180 million in the 2009 budget review. Further budget cuts to the mainstream GRW (*GRW-Normalprogramm*) were introduced in 2010 and are scheduled to come into effect from 2011. In a change unrelated to the crisis, the GRW eligibility rules were also extended to allow funding to be allocated to telecommunications infrastructure projects.<sup>74</sup> Second, amendments were made to federal instruments that support innovation in the new *Länder*. Most of these developments were driven by one of two main factors: the financial and economic crisis led to extensive changes in a wide range of fiscal policies, including regional policy instruments over the past two years; and, following the federal election in September 2009, the complexion of the federal government changed from a 'grand coalition' of the CDU, CSU and SPD, to a centre-right CDU/CSU/FDP coalition, which led to some changes in policy goals and instruments.

#### 4.6 Minor changes to policy instruments or delivery arrangements

Finally, in this review of recent regional policy developments, it is worth noting the countries where policy changes are limited to less-significant modifications of policy instruments or delivery arrangements. For the most part, these comprise Member States where regional policy is synonymous with Cohesion policy, which has provided some stability for policy objectives and spending. This applies to EU12 Member States, as well as Spain and Portugal.

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<sup>71</sup> Halkier H (2010) 'Policy continuity and the new politics of periphery: regional policy developments in Denmark, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 3, EoRPA Paper 10/2, European Policies Research Centre.

<sup>72</sup> <http://www.fornyelsesfonden.dk> [in Danish only].

<sup>73</sup> Davies S (2010) 'Fiscal consolidation and budget cuts: regional policy developments in Germany, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 6, EoRPA Paper 10/2, European Policies Research Centre.

<sup>74</sup> *Koordinierungsrahmen der Gemeinschaftsaufgabe 'Verbesserung der Regionalen Wirtschaftsstruktur' ab 2009*, Deutscher Bundestag, 16/13950, 8.9.2009.

In Spain,<sup>75</sup> the economic crisis has been the single most pressing issue on the government's agenda over the last year, and it has had a particularly acute impact on unemployment in Spain. Implementation of the national package of measures introduced in 2008 continued in 2009, and some additional measures were introduced. However, the changes made to the Regional Investment Grant and the ICF in response to the crisis have been low key. The main focus of regional policy activity over the last two years has been the launch of the 2007-13 National Strategic Reference Framework and Operational Programmes, following the delayed approval of the management and control systems. Thematic networks have also been set up to support the spread of best practice in Cohesion policy delivery. With regard to territorial governance, progress with the approval of the regions' statutes of autonomy has continued.

Similarly, the economic crisis has been high on the political agenda in Portugal<sup>76</sup> over the last two years. The main policy response by the government was the Initiative for Investment and Employment, to which Cohesion policy support has made a sizeable contribution. Funding advances have been made to specific measures, new credit instruments have been introduced, the incentive schemes have been made more flexible, and a range of measures directed at municipalities has been implemented. At policy level, the government's 2010-2013 programme restates the existing economic, social and territorial objectives of regional policy. The policy is interpreted as requiring a place-based and integrated sustainable development approach that pursues equal opportunities, the development of new centres within a polycentric urban system, and economic and infrastructure modernisation to create wealth in all territories. The NRSF is the key instrument for achieving these goals, and its strategic objectives and priorities remain unchanged.

The story is similar in the EU10<sup>77</sup> Member States of Central and Eastern Europe, where the focus has also been on accelerating the use of EU Structural and Cohesion Funds by streamlining administrative systems, reforming institutions and using simplified procedures introduced by the European Commission's 'recovery packages'. Beyond Cohesion policy, the main trend relevant for regional development policies is the continued effort to create effective sub-national administrative structures - although with contrasting experience, as examples from Latvia, Lithuania, Hungary and Slovenia illustrate.

- Latvia: the drawn-out territorial reform was completed on 1 July 2009, when the first meeting of the newly-elected councils of self-governments took place. As a result of the reform, the district level of local government was abolished. The reform was an attempt to strengthen regional governments through concentration of resources by amalgamating smaller local governments into larger-size counties.

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<sup>75</sup> Mendez C (2010a) 'A sectoral response to the crisis: regional policy developments in Spain, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 13, EoRPA Paper 10/2, European Policies Research Centre.

<sup>76</sup> Mendez C (2010b) 'Accelerating implementation during the crisis: regional policy developments in Portugal, 2009-10', in *Regional Policy Developments in Europe: Country Reviews 2009-10*, Chapter 12, EoRPA Paper 10/2, European Policies Research Centre.

<sup>77</sup> McMaster I and Mirwaldt K (2010) *op. cit.*

- **Lithuania:** a reform came into force on 1 July 2010 that abolished counties, allocating their functions to municipalities and central ministries.
- **Hungary:** changes to the implementation of regional policy have gradually shifted responsibility for the disbursement of decentralised funds from the traditional county level to the level of the statistical NUTS 2 regions established in 1999. In general, counties are slowly being replaced as the primary units of self-administration by higher-order regions and micro-regions, and 2009-2010 is a testing period for this new decentralised domestic regional development system.
- **Slovenia:** the proposed introduction of a provincial tier stalled in 2008, when Parliament did not pass a legislation package on the newly-created provinces. Another package has been prepared by the new government but, due to lack of political support, this has been postponed for at least a year.

## 4.7 Summary

Over the past 12-18 months, the main focus of policymaker attention has been the macro-economic environment. As countries have emerged from the crisis, with the resumption of growth, policy attention has shifted from stimuli for consumer demand and investment to dealing with the consequences of the crisis. In many countries, the priority is fiscal consolidation to reduce budget deficits and accumulated debt. Measures are also being introduced to improve competitiveness.

The two countries where the changes to regional policy have been most substantial are two Nordic countries: Finland, where a new regional development strategy and reform of regional governance have been introduced; and Norway, where a White Paper has placed more emphasis on local development. A third set of changes is associated with recent regional development legislation in Bulgaria. In several other countries, major strategic changes are in the pipeline. New legislation, concepts or plans have either been put forward for discussion or are anticipated over the next year in Austria, the Netherlands, Poland, France, Romania and Malta.

The economic crisis has changed the parameters for many aspects of government intervention. This is particularly the case in Greece, Italy, the United Kingdom and Ireland, where regional policy is currently in a period of uncertainty as a result of economic and political changes, in most cases involving significant cuts in resources.

The degree of policy change has been less significant in the remaining EU countries. The main policy objectives, spatial coverage, instruments and administrative arrangements remain largely unchanged. Nevertheless, in several cases, the economic crisis has led to a re-assessment of current strategies, with adaptation or 'recalibration' of strategic priorities to ensure that they maximise opportunities for growth, innovation and sustainable development, or with adjustments to the level of resources. This applies particularly to Belgium, Luxembourg, Denmark, Germany and Sweden.

Lastly, it is worth noting the countries where policy changes are limited to less significant modifications of policy instruments or delivery arrangements. For the most part, these

comprise Member States where regional policy is synonymous with Cohesion policy, which has provided some stability for policy objectives and spending. This applies to EU12 Member States, as well as Spain and Portugal.

Table 4: Main regional policy developments in Europe, 2009-10: overview

Austria	Redrafting of the Austrian Spatial Development Concept ( <b>ÖREK</b> ) is expected to incorporate some new regional policy themes, including climate change and demography. The issue of regional resilience is becoming of increasing interest to policymakers in the context of the economic crisis.
Belgium	In Flanders, an action plan (Pact 2020) was launched in January 2009 to update implementation of the 2006 strategic document 'Flanders in Action' with renewed emphasis on innovation and entrepreneurship. In Wallonia, the second 'green' Marshall Plan was adopted at the start of 2010 with a stronger focus on sustainable development.
Bulgaria	A revised Regional Development Act was introduced in 2008, which takes into account requirements related to the country's membership of the EU and regulating planning, programming, management, monitoring, control and evaluation of regional development policy, as well as organisational changes. A new regional development strategy is expected in 2010.
Cyprus	No changes since the NSRF and accompanying OPs were introduced in 2007. A wider, medium-term development is the Strategic Development Plan 2007-2013. The overall aim of the Plan is the establishment of Cyprus as a bridge of economic cooperation between the EU and the countries of the Middle East and North Africa.
Czech Republic	No legislative changes took place in 2009-10. The introduction of new NSRF and OPs in 2007 was the last key change affecting regional development approaches. The Regional Development Strategy, introduced May 2006, defines the priorities of Czech regional policy and identifies those regions which receive concentrated state support.
Denmark	A Renewal Fund was established as part of a new stage of the Globalisation Strategy, with a priority being support for structural change in localities affected badly by the crisis. A period of intense political and media debate on spatially uneven development had prompted some new political initiatives to address inequalities but these have not been translated into policy action as yet.
Estonia	No recent changes since a Regional Development Strategy came into force in 2005. The main aim is to make all regions attractive places to work and live, and to promote sustainable development. Introduction of the 2007 NSRF and three sectoral development plans.
Finland	A new, long-term development regional development strategy (2020) has been adopted. It continues the all-region policy approach but recognises the need for special support for weaker regions. The new KOKO programme merges the regional centre programme, and parts of the rural and island programmes. A new governance structure was also introduced at the start of 2010, rationalising the number of regional authorities.
France	Recent changes to policy instruments are mainly associated with the crisis: simplified access to the main regional aid (PAT), an action plan for rural territories, and amendments to the list of competitiveness poles. A mid-term review of the State-region project contracts is underway, and a strategic approach to forward-looking policy-making has been launched ( <i>Territoires 2040</i> ).
Germany	The crisis-related increase in regional policy funding has been reversed with budget cuts planned to the mainstream and special regional policy (GRW) programmes. As already decided in 2008, the (new <i>Länder</i> ) Investment Allowance will continue until 2013 but is being phased out. Federal instruments for innovation support have been revised.
Greece	The impact of the crisis is affecting all areas of public spending, including development policy. The €10.3 bn budget of the Public Investments Plan has already been cut by €1 bn in two rounds of cuts and further reductions may be made. Following the 2009 elections, new legislation has been introduced to accelerate spending under the NSRF. A major reform of administrative structures has been initiated (Kallikratis Plan) to rationalise the number of municipalities and create stronger local and regional governments.
Hungary	There have been no strategic changes since the New Hungary Development Plan came into force in 2007. This is Hungary's NSRF, entitled Employment and Growth 2007-2013. It covers eight sectoral and seven regional operational programmes.
Ireland	Policy developments have been dominated by government efforts to address the crisis. This has not only impacted on economic development but has massively cut government funding. The policy focus has been on national rather than regionally targeted measures.
Italy	Cuts were made to regional policy budgets in 2008 and 2009 and further concentration of the Fund for Underutilised Areas (FAS) on strategic projects is planned. The introduction of new policy instruments (development contracts, urban support) and a new Plan for the South has been delayed. A preferential fiscal regime and 'zero bureaucracy zones' have been announced. Responsibility for the oversight of regional policy has been transferred to the Ministry of Regional Affairs.

Latvia	No major changes since the main medium-term strategic planning document, the National Development Plan (NDP) 2007-13, was approved in July 2006. Its main priorities are education, technology and research. These are also linked to balanced regional development. As a result of recent territorial reforms, the district level of local government has been abolished. Reforms are attempting to strengthen regional governments through concentration of resources by amalgamating smaller local governments into larger-size counties.
Lithuania	No recent changes to Lithuania's Regional Development Strategy up to 2013, which was adopted in 2005 as a medium-term strategic planning document. A July 2010 administrative reform abolished the counties, allocating their functions to municipalities and central ministries.
Luxembourg	The 2005 National Plan for Innovation and Full Employment emphasises the increasing focus of economic development policy in innovation and productivity. In 2009, new support was introduced to promote RTDI, offering various forms of aid for young and innovative firms and SMEs, including an Innovation Fund.
Malta	The Pre-Budget Report 2011 sets out a reform agenda for economic development focusing on increasing competitiveness, economic diversification to increase export performance, infrastructure investment and sustainable development. A new strategic plan for the island of Gozo (Eco Gozo: A Better Gozo) has been drawn up focusing on sustainability.
Netherlands	Policy discussions are underway on the next phase of spatial development policy after the 2007-10 <i>Peaks in the Delta</i> approach ends. Current thinking is considering having fewer clusters or 'peaks' and stronger links with national innovation programmes as part of a concentration and streamlining of support.
Norway	The 2009 White Paper reaffirmed the goal of giving people the freedom to live where they wish; aim to retain main features of the settlement structure; all-region approach, but differentiated by region. Main change was stress on bottom-up community development (need to improve municipality capacity & cooperation); though importance of rural peripheral support continues. More tasks for the regional level; more coordination. New programmes have been introduced, including measures for local development and local mobilisation.
Poland	Conceptual thinking on a new regional policy model has included, in 2010, new drafts of the National Strategy for Regional Development and the National Spatial Policy Concept. There is a clear commitment to place-based regional policy (utilise the potential of all regions, plus place-based interventions); a desire to create a common regional policy across all levels; a polarisation-diffusion model; identification of areas of strategic intervention; and development of new instruments/structures (coordination, decentralisation, capacity-building).
Portugal	Regional policy is closely intertwined with Cohesion policy. The main recent development has been the government response to the crisis - the Initiative for Investment and Employment. This has not impacted on Cohesion policy objectives and approaches, but has seen funding advances and more flexibility on State aid. Also there has been progress with the implementation of global grants to municipalities.
Romania	A Strategic Concept of Territorial Development up to 2030 is to be completed by end 2010. It focuses on European spatial integration by promoting regional identity, competitiveness, territorial cohesion and sustainable territorial development.
Slovakia	No major changes since the 2008 Act on Support to Regional Development. This legal framework distinguishes between domestic regional policy and Cohesion policy and introduced the first domestic strategy for interventions aimed at developing its regions. The Act defines objectives, tools, tasks and main beneficiaries of regional development support, as well as stakeholders and provisions for cooperation.
Slovenia	No major change in national regional policy since 2005, when the Promotion of Balanced Regional Development Act was passed.
Spain	No major change to the Inter-Territorial Compensation Fund or regional incentives, though the latter support job creation more due to the crisis. Under Cohesion policy, the 2007-13 NSRF and OPs were launched. The crisis package introduced wide-ranging sectoral measures and a fund for municipality public works. Important changes to territorial governance (new regional statutes of autonomy).
Sweden	Regional growth policy introduced via the 2008 Budget Bill. Continuing emphasis on the contribution of all regions to national sustainable growth, though problem regions also recognised. New initiatives introduced to develop regional innovation systems, access to services, improving regional growth and opportunities for cultural and creative industries. Reviews have been carried out by OECD and Government Communication to parliament on the future of regional growth policy.
United Kingdom	Following the May 2010 elections, a major deficit reduction programme has been introduced as well as cutting back on the role of government. A White Paper on the future of regional policy is expected in October 2010. The Regional Development Agencies in England are being abolished, and replaced with Local Enterprise Partnerships. A Regional Growth Fund will be established. A new economic development strategy has been launched in Wales, focusing more on strategic projects.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).



## 5. EXPANDING POLICY GOALS: THE OBJECTIVES OF REGIONAL POLICY

### 5.1 Introduction

As noted in earlier chapters, the priority for policymakers in many countries over the past year has been on macro-economic, monetary and labour market policy issues. The role and resourcing of regional policy have been influenced by the economic crisis in some countries, but they have also been affected by political changes, on-going policy/theoretical debates, and emerging responses to long-term development challenges such as climate change and demographic pressures.

Before examining the objectives of regional policies, it is important to recognise the different characteristics of regional policies in Europe. The political profile, scale of spending, and form of intervention of regional policy varies greatly across Europe, related to factors such as country size, level of development, constitutional and institutional arrangements, policy traditions, and the role of EU Cohesion policy.

- There are long-standing regional policies in many western European countries, originally established to deal with underdevelopment or structural change in certain ‘problem regions’. Elements of the classical approach to regional policy, with a focus on reducing regional disparities and reliance on regional aid, continue to be used in Belgium (Wallonia), Finland, Germany, Sweden and Norway.
- Growth-oriented policies, characterised by support for the business environment (and focusing on innovation and entrepreneurship) delivered through regional programmes and other interventions, are found in Austria, Belgium (Flanders), Denmark, Finland, Italy, the Netherlands and Sweden.
- These themes are also evident in the regional policies of France and parts of the United Kingdom, where policy has (had) a broader spatial development orientation and a strategic coordination role.
- Reflecting the volume of EU funding flows, regional policy operates mainly through EU Cohesion policy programmes in Greece, Portugal and, to some extent, Spain. The same is true in Poland and other Central and Eastern European countries. Where EU Cohesion policy plays the dominant funding role, regional policy is strongly programme-based and growth-oriented, with the goal of closing the development gap with the rest of the EU. Addressing internal disparities is generally viewed as a secondary concern, though it is moving up the policy agenda in a number of Member States.
- Lastly, in some cases, regional policy is not explicit and does not have dedicated legislative, institutional or financial resources, as in Cyprus, Ireland and Malta. Yet, regional economic development objectives are expressed and addressed through broader policy frameworks.

The starting point for regional policy is, therefore, quite different among European countries. The following review of recent developments in the objectives of national regional policies has to be seen in this light. Nevertheless, as well as highlighting distinctive developments, it is possible to identify common trends and shared responses, linked to ongoing economic development challenges and new strategic and policy thinking, especially in relation to the strategic frameworks for policy, the balance of equity and efficiency policy objectives, the application of all-region approaches versus regional targeting, and new functional interpretations of regions. Recent changes to policy objectives are also summarised in Table 6.

## 5.2 Policy objectives: competitiveness vs cohesion

A long-term trend in regional policy objectives, in many countries, as noted in previous EoRPA research, has been a shift in regional policy goals from being a policy primarily concerned with territorial equity to one placing more emphasis on growth and competitiveness at the regional level. This change reflects both the growing internationalisation of economic development (reflected by the crisis) and the ongoing influence of broader European priorities (including the Lisbon agenda). Equally, issues of territorial fairness or 'balance' continue to underpin many regional policies (in some cases for constitutional reasons - as in Germany, Italy and Spain), and funding flows still tend to support the most disadvantaged areas (in Germany and Italy, but also the United Kingdom, Denmark and Poland). In addition to equity and efficiency concerns, regional policy has an interest in maintaining and supporting viable territorial structures in the Nordic area (Finland, Norway and Sweden).

This general picture has not changed over the past 1-2 years. Regional policy tends to remain focused on longer-term goals - although with some important differences in approach.

### 5.2.1 *Emphasising national and regional competitiveness*

The main objective of regional policy in several countries is 'competitiveness' - variously defined as involving innovation, entrepreneurship and productivity improvements - at national and regional levels. As a result of the economic crisis, the focus on national competitiveness is increasing in some countries.

One of the best examples is the Netherlands, where the focus of regional policy is no longer on disadvantaged or lagging regions but on national strengths. The main strategic document (*Peaks in the Delta*), which has governed policy over the past four years, highlights the need to restore the international competitiveness of the Dutch economy and the role of spatially-targeted initiatives in removing regional obstacles to national growth. From this, the policy goal was derived 'to stimulate economic growth in all regions by exploiting region-specific opportunities of national significance'.<sup>78</sup> This objective of building on regional strengths/peaks still underpins Dutch regional policy, with a growing

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<sup>78</sup> Ministry of Economic Affairs (2004) *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, Section 1.2



policy orientation towards strong and effective regions. Current discussions on revising Dutch spatial economic policy suggest that strategic concentration may be intensified. The likelihood is that there will be a significant reduction in the number of nationally-supported peaks (certainly when compared to the current position) and also that the links between national peaks and national innovation programmes will be strengthened.

Austria is another country where there continues to be a clear efficiency orientation for regional policy, with a strong macroeconomic performance expected to have positive effects on regional growth, thus contributing to regional balance. As formulated in the national strategic document, STRAT.AT:

*Austria must increase its regional economic competitiveness at a faster rate, with a growth path that provides increasing employment and income levels. Furthermore, the growth path has to contribute at the same time to a balanced and sustainable regional development.*<sup>79</sup>

Support for innovation (a long-term feature of Austrian regional policy) and the upgrading of human resources are seen as crucial for achieving this objective.

Similarly, in Belgium (Flanders), the most recent declaration of the Flemish government confirmed existing policy objectives, which underlined the importance of an innovation-driven economy and the support of entrepreneurship in order to make the region an internationally competitive, green, knowledge-based economy.<sup>80</sup>

In Sweden, also, the objective of regional policy remains the promotion of local and regional competitiveness throughout the country. Regional development policy was renamed as regional growth policy following the election of the new Government in September 2006 and the adoption of the 2008 Budget Bill. The subsequent regional growth policy has sought to encourage the contribution of each region to national growth.

### *5.2.2 Continuing to promote territorial equity*

Regional competitiveness is a dominant policy objective. However, a commitment to regional equity and distinctive development needs and goals continues to be reflected in domestic policy objectives. This is evident in the reference to 'balanced and sustainable regional development' in the case of the Austrian strategy statement above. Indeed, it is not uncommon for there to be a dualism in the goals of regional policy - assuming that the oft-discussed tensions or even conflicts between efficiency and equity (or between competitiveness and cohesion) can be reconciled or accommodated. Territorial equity as a policy goal is found in a wide range of countries, including Germany, Spain, France, Denmark, Poland, other EU12 countries, and the United Kingdom.

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<sup>79</sup> STRAT.AT (2006) *Nationaler Strategischer Rahmenplan Österreich 2007-2013*, Wien, p.18.  
<http://www.oerok.gv.at/eu-regionalpolitik/eu-strukturfonds-in-oesterreich-2007-2013/nationale-strategie/stratat.html>

<sup>80</sup> Minister-President Kris Peeters (2009) *Verklaring Minister-President Kris Peeters Betreffende de begrotingscontrole 2009 en de begrotingsopmaak 2010*, Vlaams Parlement 28 September 2009, p.3.

- Despite debates over the rationale and practice of regional policy in Germany, the underlying philosophy of domestic regional policy remains unchanged. There is a strong and long-standing commitment (dating back to the establishment of the (*Gemeinschaftsaufgabe* policy in 1969) to reducing the locational disadvantages of structurally weaker regions, so that regions are better able to participate in economic development, both in order to reduce regional disparities and to strengthen aggregate economic growth, facilitate structural change and support the constitutionally-based goals of equivalent living conditions.
- Likewise, Spain has a constitutional commitment to balanced development and solidarity that remains unaltered since its introduction in 1978. This governs the objectives of the main regional policy instrument, the ‘Inter-Territorial Compensation Fund’ (*Fondo de Compensación Inter-Territorial*, FCI), which provides funds to regional governments for financing public investment expenditure, and the Regional Investment Grant, which grants aid for business investment.
- In France, the promotion of territorial attractiveness, excellence and innovation are increasingly at the heart of regional policy, particularly by strengthening the contribution of key centres to national development. However, the specific development needs of territories facing ‘natural challenges’ and maintaining the attractiveness of small towns and the countryside are also mentioned.<sup>81</sup> The preservation of territorial cohesion has long been a core regional policy goal, and various territories, such as métropoles, rural areas, and coastal and mountainous zones, currently receive support in order to stimulate balanced development.
- A similar dualism applies to the goals of regional policy in Denmark. The 2005 Business Development Act had a growth-oriented agenda that focused on the role of regions in promoting economic development and contributing to national growth. This co-exists with the 2003 regional policy White Paper, which defined the regional development aim of maintaining Denmark’s ‘leading position within Europe as one of the countries with the smallest differences between regions’ through ‘specific initiatives ... that target peripheral areas so that they are not cut off from the growth occurring in other parts of the country’.<sup>82</sup>
- The current generation of development strategies in Poland also combines equity and efficiency-related aims. For instance, the National Development Strategy (2007-15) has both equity and efficiency goals, on the one hand promoting the competitiveness of all regions, but also seeking to promote cohesion and levelling out development opportunities. An emerging new regional policy model is based on ‘polarisation-diffusion’, involving support for Poland’s most competitive sectors and centres (polarisation) alongside provisions for the diffusion of benefits through a range of instruments. The objectives and measures set out in a July 2010 draft of

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<sup>81</sup> DIACT (2009) *op.cit.*

<sup>82</sup> Regeringen (2003) *Den regionale vækststrategi*. København: Regeringen.

the country's new Regional Development Strategy confirm a move from a convergence/equity-oriented perspective to one based strongly on competitiveness and efficiency.

- Elsewhere among the EU12, most emphasise the importance of convergence with EU development averages and have a strong orientation towards national growth and development. Increasingly, economic competitiveness is at the heart of these strategies, notably in the Czech Republic, Estonia, Hungary, Malta, Slovakia and Slovenia. Equally, several of the EU12 countries (the Czech Republic, Slovakia and the Baltic States) also have regional development strategies and concepts containing commitments to reducing regional disparities and equalising living standards across regions.
- As noted in the previous chapter, regional policy in parts of the United Kingdom (England) is in a state of flux. Until May 2010, policy objectives focused on improving the economic performance of all regions and reducing development gaps that had resulted from market or government-based failures to alleviate differences in underlying drivers of productivity. Following the General Election, there is a government pledge to create a fairer and more balanced economy, 'where we are not so dependent on a narrow range of economic sectors, and where new businesses and economic opportunities are more evenly shared between regions and industries'.<sup>83</sup>

### 5.3 Territorial and social cohesion

Within this general categorisation of national regional policies in terms of their equity or efficiency focus, there has been a noticeable increase of policy being concerned with issues of territory or 'place'. There is a long-standing concern of regional policymakers in Finland, Norway and Sweden with the remote, sparsely-populated areas in the north of these countries, despite the focus on competitiveness in all regions. For example, Norway has an on-going commitment to maintain the prerequisites that give people real freedom to live where they wish to live; retention of the main features of the settlement pattern implies additional support to peripheral and remote regions of the country. Regional development policies in Greece have given a preferential focus to mountainous and island areas for many years, and this is also the case (with islands) in Estonia.

A more recent trend, evident over the past decade in particular, has been in the direction of place-based policies of various kinds - adapting regional policies to the needs of individual types of regions, mobilising the growth potential of specific centres or clusters, or facilitating interaction between regions or centres. The new thinking about regional policy in Poland, noted above, foresees a 'place-based' regional policy that concentrates on the endogenous potentials of all regions (see Box 2): supporting the competitiveness of regions (primarily pertaining to urban centres); building territorial cohesion and preventing

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<sup>83</sup> HM Government (2010) *op. cit.* p.4.

the marginalisation of problem areas; and creating conditions for efficient, effective and partnership-based implementation of territorially-oriented development policy.

**Box 2: National Regional Development Strategy – Poland (July 2010 version)**

The 'strategic objective of regional policy...is the efficient use of specific regional and territorial development potentials to achieve the development goals of the country - growth, jobs and cohesion in the long term'. The three specific objectives for the period up to 2020 are competitiveness, cohesion and efficiency:

- supporting the competitiveness of regions - pertaining primarily to the main urban centres ('competitiveness');
- building territorial cohesion and preventing the marginalisation of problem areas ('cohesion') - including measures to accelerate restructuring processes and improve access to public goods and services, particularly in areas with the lowest economic, social, institutional and infrastructural indicators; and
- creating the conditions for efficiency, effective and partnership-based implementation of territorially-oriented development policy ('efficiency') - relating to the institutional and legal conditions necessary for the implementation of pro-development measures (e.g. strengthening strategic approaches, improving public management, strengthening cooperation, and stimulating greater social activism).

The Polish approach has some parallels with the strategy for regional policy in France proposed by the 2009 DATAR study, *A New Ambition for Territorial Development*.<sup>84</sup> It proposes that challenges of sustainable economic, social and territorial development require a functional approach, which should be provided via measures of polarisation, connection and cooperation, as suggested in the European Commission's Green Paper on territorial cohesion. DATAR has put forward nine strategic tasks that are interdependent and adaptable to accommodate future developments. They concern different territories, notably urban spaces (*métropoles* as territorial motors for growth and excellence; a capital-region of international standing; and improved living conditions), but also less densely populated areas (attractive small towns and countryside; digital development), and a number of horizontal measures (more effective goods transport and logistics; preservation and promotion of territories facing natural challenges; adaptation to climate change; and a redefinition of the roles of actors and the tiers of territorial development).

Portugal has a constitutional commitment to promote economic and social cohesion. More recently, the government's 2010-13 programme set out the specific economic, social and territorial objectives of regional policy as being a 'place-based' and integrated sustainable development approach that purses equal opportunities, the development of new centres

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<sup>84</sup> DIACT (2009) *Op Cit*

within a polycentric urban system, and economic and infrastructure modernisation to create wealth in all territories. Nevertheless, the defining feature of the 2007-13 period is the significantly greater emphasis placed on competitiveness objectives.

Focusing policy spatially has been a central feature of the *Peaks in the Delta* strategy in the Netherlands, which is based on geographic programmes that target regional strengths with institutional arrangements that provide flexibility for central government to engage with development opportunities in the regions in line with national priorities. The new 2020 strategy in Finland also identifies the need to strengthen the metropolitan region as an internationally competitive driving force of the national economy, to secure agreement between the State, regional councils and other interests in large urban regions to anchor national innovation strategy in the regions and strengthen the concept of *seutukaupunki* (the city and surrounding municipalities). Each of these measures highlights the role of cities and networking across areas to promote growth.

Lastly, in considering the importance of social cohesion, it is worth noting that regional policy priorities in a number of countries also focus upon socio-economic development concerns, such as access to services, demographic change, and minority rights. This commitment to social cohesion is evident in Italy, where the three objectives of the National Strategic Document include enhancement of the quality of life, security, and social inclusion within the supported territories. It is also notable in several countries in Central and Eastern Europe. For instance, the Estonia Regional Development Strategy highlights the requirement to better meet the needs of people across the country. A key objective set out in the Regional Policy Strategy of Latvia is social cohesion in living standards. The Regional Development Law in Romania sets out a commitment to pursuing social inclusion, as well as economic growth and competitiveness. Similarly, the (2005) Law on Balanced Regional Development in Slovenia highlights the need to reduce differences in quality of life and social welfare.

#### **5.4 New policy objectives: climate, demography, energy, environment**

Finally, in this review of policy objectives, one of the striking features of some European regional policies in recent years is the longer-term thinking about the goals of policy. The agenda for regional policy has been broadening to incorporate new policy themes, in particular climate change and alternative energy, environmental sustainability, energy security, and demographic change (including migration and demographic ageing). The degree to which this policy-thinking is being translated into practice does, however, vary; in some cases, the new policy objectives are contained in long-term spatial planning concepts and vision statements that are intended to serve as guidance for territorial development over the next 20-40 years.

Many of these policy trends are reflected in the new long-term '2020' strategy of Finland. Tailored to specific domestic development concerns, the policy objectives set out in '2020' reflect a wider set of potential goals for regional policy action. Although the current objectives continue to be based on the Government's Decision for 2007-2011 (strengthening national and international competitiveness in the regions, strengthening regional viability, reducing regional disparities, and solving specific regional challenges), the new strategy sets out a vision for regional development in 2020, which will inform the preparation of

future regional and Cohesion policies and guide the development of central- and regional-level strategies. The strategy also includes priorities that should be included in current policy interventions, including: new themes in regional development programmes with links between, for example, regional energy and natural resource strategies; a policy focus on metropolitan areas and their surroundings; and enabling cross-sectoral cooperation and policy coordination (see Box 3).

**Box 3: Finnish Regional Development Strategy (*Suomen aluekehittämisstrategia*) 2020**

**Proposed changes to policy objectives and priorities**

- Definition and adoption of a more user-oriented innovation policy, which should become part of the national regionally-focused innovation policy.
- Strengthening of the metropolitan region (through the metropolitan network of urban centres in southern Finland) as an internationally competitive driving force of the national economy
- Agreement between the State, regional councils, and other interests in large urban regions on anchoring national innovation strategy in the regions
- Strengthening of the concept of *seutukaupunki* (the city and surrounding municipalities)
- Inclusion of strategies for regional energy and natural resources in the strategic regional programmes
- Reinforcing cross-sectoral cooperation between different actors and networking across all levels of administration
- Development of the regional planning and decision-systems in 2011-2012 to allow the integrated implementation of national and EU regional policies

Source: Ministry of Employment and the Economy, *Suomen aluekehittämisstrategia 2020*, 17 March 2010.

This breadth in approach is evident in France in the key objectives set out in a recent DATAR assessment of territorial development. Currently, French territorial development policies have twin objectives: on the one hand, they pursue territorial cohesion, equity and limiting disparities; on the other hand, the promotion of territorial attractiveness (as reflected in the new name of DATAR), excellence and innovation have gained growing support. Reconciling the traditional incompatibility between cohesion and competitiveness is one of the main messages from the 2009 DATAR study ('A new ambition for territorial development'), which also advocates 'virtuous behaviour in energy and environmental matters' by promoting sustainable territories and green growth (see Table 5).

**Table 5: Challenges and objectives of French regional policy, 2009**

Challenge	Objective
Territorial dynamism and global growth	Promote territories of growth and excellence
Social and territorial cohesion	Enhance territorial attractiveness and complementarities
Virtuous behaviour in energy and environmental matters	Promote sustainable territories and green growth

Source: Adapted from DIACT (2009) *Une nouvelle ambition pour l'aménagement du territoire*, pp. 19-22.

Broader objectives are also evident in the policy-thinking underway in Austria as part of the redrafting of the Austrian Spatial Development Concept (*Österreichisches Raumentwicklungskonzept*, ÖREK). Although the concept has no legal force, it is intended as a guidance document for policymakers and stakeholders in spatial and regional development. The revision of the ÖREK, to be completed in 2011, is based mainly on a long-term, scenario-development project (Scenarios 2030)<sup>85</sup> and is expected to cover a number of new themes, including climate change, demography and resources. Working groups have been established to focus on five key themes: integrated economic development (of business locations); demographic change; environment, climate change and resources; transport and mobility; and spatial development and governance. To date, a 'Paper in Progress' (PIP) has been published (April 2010), which sets out spatial development objectives, strategic areas of activity, and proposed measures.<sup>86</sup>

In a further example of the broader policy agenda, in Belgium sustainability is at the heart of an updated strategic policy document governing regional policy in Wallonia. The 'green' Marshall Plan (*Plan Marshall 2.vert*), adopted in September 2009, is a strategic action plan that pools funds from different sources (e.g. regional aid, Structural Funds) to enhance development in disadvantaged areas and promote employment creation.<sup>87</sup> The Marshall Plan in turn is based on Wallonia's medium- and long-term strategy for the future of Wallonia (*Contrat d'Avenir*). The new plan builds on the strategic priorities of its predecessor but with a stronger focus on sustainable development. It identifies six development priorities: (i) promoting human capital by creating new jobs and opportunities for lifelong learning; (ii) promoting economic development in competitiveness poles; (iii) turning scientific research into an 'engine for the future'; (iv) creating businesses and high-quality jobs; (v) establishing links between employment and environment; and (vi) combining work and welfare.

Other examples of this trend are:

- the National Spatial Development Concept (*Koncepcja Przestrzennego Zagospodarowania Kraju*, KPZK) in Poland, whose six aims include achieving and maintaining high environmental quality and enhancing the resilience of the spatial structure of the country in the face of energy security and national risks;
- in the United Kingdom, where the Regional Development Agencies in England have been expected (under the 2009 UK Low Carbon Transition Plan) to provide regional leadership on energy and climate change through the development and delivery of

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<sup>85</sup> ÖROK (2008) *Szenarien der Raumentwicklung Österreichs 2030. Materialienband*, ÖROK-Schriftenreihe 176/I, Wien; ÖROK (2009) *Szenarien der Raumentwicklung Österreichs 2030. Regionale Herausforderungen und Handlungsstrategien*, ÖROK-Schriftenreihe 176/II, Wien. For more information, see EoRPA Paper 09/3.

<sup>86</sup> Fassmann, H. (2010) 'Perspektiven der räumlichen Entwicklung und Grundsätze der politischen Gestaltung', Paper in Progress - PIP. Auf dem Weg zum ÖREK 2011, Wien.  
[http://www.oerok.gv.at/fileadmin/Bilder/2.Reiter-Raum\\_u\\_Region/1.OEREK/OEREK\\_2011/PIP/PIP\\_paper\\_in\\_progress\\_Reflexion\\_gesamt.pdf](http://www.oerok.gv.at/fileadmin/Bilder/2.Reiter-Raum_u_Region/1.OEREK/OEREK_2011/PIP/PIP_paper_in_progress_Reflexion_gesamt.pdf) (accessed 15.07.2010).

<sup>87</sup> Gouvernement Wallon (2009) *Plan Marshall 2.vert, Viser l'excellence*, 17.09.2009.

regional strategies, including energy and carbon-reduction plans and targets, and supporting regional partnerships;<sup>88</sup> and

- the creation of a new Renewal Fund in Denmark, where the aim of promoting local restructuring is meant to co-exist with the objective of ‘green growth’.

## 5.5 Implications of funding constraints for policy objectives

A final point to make in this review of policy objectives concerns the implications of resource constraints. As discussed in detail in Chapter 9, the economic crisis has led to sizeable cutbacks in regional development spending in some countries. This may well have implications for the ‘weight’ attached to policy goals and priorities, although these are not yet clear.

In Italy, cuts (€10,786 million) and redeployments (€25,459 million) have been made to the financial allocations to the National Strategic Document, specifically to the domestic policy resources - the so-called FAS Fund (Fund for Underutilised Areas), targeting particularly the Southern regions. This change comes on top of cuts of resources from domestic regional policy made in 2008 (€2.44 million from the FAS resources assigned to 2000-06 programmes). In 2009, resources were both cut and diverted towards measures to address the economic crisis (whilst maintaining, for the redeployed resources, the ring-fencing principle of 85 percent in favour of the Southern regions). While the formal goals of the National Strategic Document (NSD) governing regional policy have not been changed in response to the crisis, a considerable portion of the resources of the Fund for Underutilised Areas (FAS) allocated to the NSD has been reallocated to three other funds to help ‘re-launch’ the Italian economy through funding strategic infrastructures and measures in support of the employment emergency.<sup>89</sup> Thus, whilst the NSD has not been modified in terms of its objectives, the achievability of its goals has been thrown into question by the virement of resources towards other goals. The Italian Government anticipates a further reprogramming of the FAS to concentrate resources on strategic infrastructure projects and other strategic interventions that will be contained in the Plan for the South, which is currently being finalised. This will further affect the ability of the NSD to deliver its regional policy goals. At the same time, the government is carrying out an appraisal of the resources left unused from FAS allocations for the 2000-06 period, which will be released and reallocated.

Major budget cuts in Ireland have led to a refocusing of many policy interventions and the suspension or scrapping of others. While the country does not have a dedicated regional policy, shifts in policy priorities and funding continue to impact upon the ways in which regional development disparities can be addressed. For instance, spending on transport, which is viewed as important for boosting the accessibility of lagging regions in the Border

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<sup>88</sup> Following the election of a new UK Government, the English RDAs are to be abolished with effect from 2010.

<sup>89</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2010) *Rapporto Annuale 2009 sugli interventi delle aree sottoutilizzate del Dipartimento per lo Sviluppo e la Coesione Economica*, Rome, July 2010, 231.



Midland and Western (BMW) region, has experienced one of the largest reductions in National Development Plan (NDP) funding, decreasing by 24 percent in 2009.<sup>90</sup>

Similar changes to those being undertaken in Ireland are expected in Greece, also linked to the economic crisis. The need for a considerable reduction in public expenditure is likely to have a significant impact on the country's capacity to meet regional development goals. Regional policy provision is dominated by EU Cohesion policy. As a result, plans by the new government (elected in 2009) to revise the NSRF OPs could have major consequences for the future orientation of regional development policies.

Lastly, changes in the profile of regional policy are emerging in the United Kingdom. At present, there is little information available on the new coalition government's approach to regional policy in England. The Comprehensive Spending Review due in October 2010 will have a considerable impact on what policy can do. The review is intended to deliver a 25 percent reduction of costs across departments, applying to both capital spending and staff costs. The only explicit regional policy instrument remaining will be the Regional Growth Fund, and this has limited funding compared to RDA budgets (£1 billion over two years, 2011-2013, which is some 65 percent less than the RDA networks budget). Moreover, there is no guarantee that the lifespan of the fund will be extended beyond 2013. The Devolved Administrations (Scotland, Wales and Northern Ireland) pursue economic development strategies with an emphasis on sustainable economic growth regardless of location. Given their reliance on UK Government transfers, the budget allocation formula will inevitably also have major implications for the Devolved Administrations.

## 5.6 Summary

A long-term trend has been a shift in regional policy goals from being a policy primarily concerned with territorial equity to one promoting growth and competitiveness at the regional level. This general picture has not changed over the past 1-2 years. Regional policy often remains focused on longer-term goals - although with some important differences in approach.

The main objective of regional policy in several countries is 'competitiveness' - variously defined as involving innovation, entrepreneurship and productivity improvements - at national and regional levels. As a result of the economic crisis, the focus on national competitiveness is increasing in some countries. However, a commitment to regional equity and distinctive development needs and goals continues to be reflected in domestic policy objectives. Indeed, it is not uncommon for there to be a dualism in the goals of regional policy - assuming that the oft-discussed tensions or even conflicts between efficiency and equity (or between competitiveness and cohesion) can be reconciled or accommodated.

A more recent trend, evident over the past decade in particular, has been in the direction of place-based policies of various kinds. This involves adapting regional policies to the

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<sup>90</sup> Kerr, A. (2009) 'Road-building projects bear the brunt of massive cuts', *Irish Independent*, 8 April 2009. <http://www.independent.ie/national-news/budget-2009/news/roadbuilding-projects-bear-the-brunt-of-massive-cuts-1701977.html>

needs of individual types of regions, mobilising the growth potential of specific centres or clusters, or facilitating interaction between regions or centres. In addition, one of the striking features of some European regional policies in recent years is the longer-term thinking about the goals of policy. The agenda for regional policy has been broadening to incorporate new policy themes, in particular climate change and alternative energy, environmental sustainability, energy security, and demographic change (including migration and demographic ageing). The degree to which this policy-thinking is being translated into practice does, however, vary; in some cases, the new policy objectives are contained in long-term spatial planning concepts and vision statements that are intended to serve as guidance for territorial development over the next 20-40 years.

Lastly, it should be noted that the economic crisis has led to sizeable cutbacks in regional development spending in some countries. This may well have implications for the 'weight' attached to policy goals and priorities, although they are not yet clear.

Table 6: Changes to regional policy objectives, 2009-10

Austria	No changes made to the broad objectives. However, the Austrian Spatial Development Concept (ÖREK) is being redrafted and is expected to cover a number of new themes, including climate change, demography and resources.
Belgium	No national-level objectives. Flanders has a horizontal policy focus (innovation and regional strengths). Wallonia focuses on sustainable development in a context of social cohesion, emphasising investment in human capital, and targeting disadvantaged regions.
Bulgaria	No change. Development laws adopted between 1999 and 2008 define tackling regional and spatial inequality as the primary goal of regional development policy. Within this, objectives are: strengthening the competitiveness of the economy; development of human capital; and achievement of territorial cohesion.
Cyprus	No change. Strategic Development Plan 2007-2013 aims to enhance territorial and social cohesion through integrated urban regeneration and improve the 'attractiveness' of rural areas through agricultural diversification and mobilisation local government.
Czech Republic	No change. Objectives are to achieve balanced national development and balanced development within regions. Strategy for Regional Development (2007-13) sets out the aim - to increase economic and environmental potential competitiveness and social conditions in the regions to a level comparable with developed regions of Europe, and halt and reduce excessive regional disparities.
Denmark	No major change. The 2003 White paper and 2005 Business Development Act focus on interregional equality and a growth-oriented agenda, with a key role for regions in promoting economic development. New provision made for Renewal Fund focusing on support for local economic restructuring.
Estonia	No change. Regional Development Strategy sets out an overall objective of sustainable development of all regions, based on individual territorial capital. A secondary objective is to halt concentration in the capital region. Accompanying aims are: better improved fulfilment of the basic needs of people across the country; sustainable competitiveness in the different regions; and enhanced ties between Estonian regions, cross-border regions, and the rest of the Europe.
Finland	Government objectives continue to be strengthening national and international competitiveness in the regions; strengthening of regional viability and reduction of regional disparities; and, solving specific regional challenges. A new, long-term regional development strategy for 2020 was adopted in 2010, which underlines the importance of developing all regions and the role of support for weaker regions.
France	No change. Policy continues to promote the objectives of territorial cohesion, equity and limiting disparities, and the promotion of territorial attractiveness, excellence and innovation. In the context of the current crisis, the objective is to concentrate funding in areas of wealth creation but to the benefit of all territories.
Germany	No major change. Active regional policies aim to reduce the locational disadvantages of structurally weaker regions, reduce regional disparities and strengthen aggregate economic growth, facilitate structural change, and support the constitutionally-based goal of equivalent living conditions.
Greece	Regional policy remains strongly aligned with EU Cohesion policy. The current economic, social and territorial cohesion objectives have not been modified. However, changes are expected by the end of 2010, as a result of the impact of the economic crisis.
Hungary	No change. The National Regional Development Concept sets five long-term objectives: regional competitiveness; territorial convergence; sustainable territorial development and protection of heritage; spatial integration with Europe; decentralisation and regionalism.
Ireland	Broad, long-term economic development priorities are fixed by long-term strategic planning documents, including the National Development Plan and National Spatial Strategy. Commitments to balanced regional development are made. However, the impact of the economic crisis has shifted the focus of policy and resource onto national growth and development.
Italy	No fundamental changes made to the strategy outlined in the country's National Strategic Document, which takes a country-wide approach but concentrates resources on the <i>Mezzogiorno</i> . In response to the crisis, however, resources have been reallocated to support economic recovery.
Latvia	No change. Regional development is considered to be an important dimension of the country's 2007-13 NDP. This highlights the need to minimise socio-economic differences between territories, and building on the distinctive characteristics of each territory.

Lithuania	No change. Regional Development law sets out key goals: the reduction of social and economic disparities between and within the regions; and the promotion of balanced and sustainable development of the entire territory. An accompanying Regional Policy Strategy sets out the objectives of territorial and social cohesion in living standards and employment and to improved competitiveness in seven regional growth centres.
Luxembourg	Regional policy is largely synonymous with national industrial policy
Malta	No change. The Government's overall objective for regional development is to sustain and develop a dynamic, high value-added economy.
Netherlands	No significant shift in objectives since the introduction of Peaks in the Delta in 2004. Clear focus is on national strengths (peaks) in the regions. The successor to the Peaks policy is currently being discussed. An on-going debate is the distinction between national and regional clusters.
Norway	The 2009 White Paper includes an enhanced focus on bottom-up growth. Goals are: to establish/maintain conditions; to retain the main features of the settlement pattern; to continue to pursue an all-region approach, tailoring policy to needs; to use the links between small cities and larger urban areas to stabilise settlement structures and drive forward development; to recognise the bottom-up nature of development Local capacity is seen as a key precondition for development and is therefore a policy focus.
Poland	Current generation of development strategies combine equity and efficiency-related aims but with an increasing focus on efficiency. In the most recent strategies, a clear commitment to a 'place-based' regional policy model is emerging and concentrates on endogenous potentials in all regions.
Portugal	Long-standing constitutional commitment to promote the economic and social cohesion of the whole country. In the government's 2010-2013 programme, the economic, social and territorial objectives of regional policy are emphasised and interpreted as: a place-based and integrated sustainable development approach that pursues equal opportunities; the development of new centres within a polycentric urban system; and economic and infrastructure modernisation to create wealth in all territories.
Romania	No change. Romania's Regional Development Law sets out the objectives to reduce regional disparities, ensure sectoral policy coordination at the regional level, and stimulate interregional cooperation. The main objective of the NDP is the reduction of the development gap between Romania and the EU.
Slovakia	No change. The Slovak Government's (2006-10) declaration states that the Government aims to balance economic growth with social cohesion and quality of life. In relation to regional policy, the aim is to halt the continuing trend of increased regional disparities through the use of central development incentives and support for policies implemented by self-governing regions.
Slovenia	No change. Among the objectives of Slovenia's (2005) law on Balanced Regional Development are: reducing disparities between individual areas of the country; preventing new major development problems; polycentric development; economic competitiveness in development regions; reducing unemployment rates in development regions; promoting an integrated approach to the development of rural areas; reducing differences in quality of life and economic and social welfare; and enhancing settlement areas of indigenous minorities and the Roma community.
Spain	No recent changes to the objectives of the FCI or the Regional Investment Grant. The overarching objectives of both instruments are anchored in a constitutional commitment to balanced development and solidarity, which remains unaltered since its introduction in 1978. A broader initiative of note is the Sustainable Economy Act approved by the government in November 2009, but which has yet to be approved by Parliament.
Sweden	The Government's response to the regional problem continues to be based on the objectives and instruments set out in the 2008 Budget Bill. The overall objective remains 'the creation of dynamic development in all areas of the country with greater local and regional competitiveness'.
United Kingdom	In England, the regional policy framework which aimed to <i>improve the economic performance of all English regions and reduce the gap in economic growth rates between regions</i> has been suspended, pending implementation of the changes introduced by the new coalition government. A White Paper on the future of regional policy is planned. In Scotland the focus remains on long-term sustainable growth.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).

## 6. NEW WAYS OF TARGETING SUPPORT: DEVELOPMENTS IN THE SPATIAL ORIENTATION OF REGIONAL POLICY

### 6.1 Introduction

The traditional focus of regional policy on regional aid areas has been subject to change over an extended period, with all-regions policy approaches becoming increasingly dominant. However, elements of regional targeting have been retained. Developments in the recent 2009-10 period have not changed this overall trend, but there is an emerging interest in finding new ways of targeting support that involves a wider range of policy interventions. As noted in Chapter 3, this reflects new thinking about different spatial scales for designing policy support.

This chapter reviews recent developments in the spatial orientation of regional policy (summarised in Table 7). It begins by setting the context in terms of the balance between all-regions and spatially targeted approaches to regional policy, and then identifies examples of where the regional selectivity has been intensified by the economic crisis and other factors. Lastly, it discusses new interpretations and definitions of regions.

### 6.2 Dominance of the 'all-region' approach, but retention of spatial targeting

The traditional focus of regional policies has been on designated areas that are eligible for regional aid. These areas have generally been narrowly defined, involving varying combinations of economic, social, territorial or other indicators for designation purposes and using small areas (labour market areas, travel-to-work areas etc) as the building blocks for designation.<sup>91</sup> Virtually every European country still retains at least one major regional aid scheme that can be used to support investment and employment by enterprises, within EU State aid rules in terms of aid ceilings and assisted areas (see Table 10).

Over the past decade, regional policies in several countries have adopted a broader spatial perspective. Regional policies increasingly seek to mobilise and develop specific resources in all regions, as illustrated by the following examples of Denmark, Finland, France, the Netherlands and Sweden.

- In Denmark, regional policy has become country-wide since a new approach was introduced in 2007. Regional policy is spatially comprehensive in that each of the five new regions is statutorily obligated to establish at least one regional growth forum, which would have the task of monitoring and furthering economic development in its region. This contrasts sharply with the voluntary character of regional-level initiatives under the previous approach, where regions could decide whether they would engage in such activities or not, resulting in a geographically uneven pattern across the country.

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<sup>91</sup> Bachtler, J. and Yuill, D. (2007) *op. cit.*

- The Regional Development Act in Finland, introduced in 2003, confirmed a shift from policy goals primarily concerned with territorial balance and service provision at the heart of policy (with regional policy consisting generally of aid-based measures targeted at narrowly-defined problem regions) towards the stimulation of regional competitiveness across the country as a whole - while still recognising that major, region-specific problems existed. Regional development policy currently takes an all-country approach by safeguarding good living conditions for the population regardless of their place of residence, and by improving the use of available resources.
- Similarly, in France, although designated aid area maps have been in operation since the 1950s, regional development policy has, for the most part, had a nationwide spatial development focus rather than a problem-region orientation. The main instrument of resource allocation, the State-region contracts, is implemented across the territory without specifically targeting priority areas. This has been reinforced by the recent decision to make the Paris and Lyon agglomerations eligible for R&D and innovation aid available under the main regional aid scheme for the 2007-13 period.
- In the Netherlands, the 'Peaks of the Delta' policy also takes an all-regions approach. The original aim was to allocate regional policy funding across the country based on the distribution of regionally-exporting jobs. In the event, this was achieved for the current phase of policy in respect of five of the six programme areas; the exception was the north where, following parliamentary pressures and a compromise solution, transitional funding was agreed for the 2007-10 period.
- Since the early 2000s, the focus of regional policy in Sweden has been on promoting economic growth and international competitiveness. Whereas the main focus in the past was on social and spatial redistribution of resources within the country (and targeting peripheral areas), current policy highlights the responsibility of all regions to utilise their specific strengths to contribute to national growth. All regions are perceived as having unique qualities that can attract business, residents and visitors, and this task is seen as a responsibility for all regions.

The prominence of the all-regions approach is clear. Nevertheless, it is not universal. In Spain, where much of the economic development support is provided through EU-funded sectoral programmes, the two main regional policy instruments (the Regional Investment Grant and the Inter-Territorial Compensation Fund (*Fondo de Compensación Interterritorial*, FCI) provide preferential assistance for the weaker regions of the country. In Germany, the main regional policy instrument (GRW) only operates in designated assisted areas; several other instruments allocate funding for public investment and business support for the new *Länder* only, including the Solidarity Pact (*Solidarpakt*), the Investment Allowance (*Investitionszulage*) and various federal programmes supporting innovation and enterprise. Interestingly, the focus of some programmes has been broadened recently, largely as a result of the economic crisis. First, the allocation of additional funding to the GRW under the first federal fiscal stimulus package of late 2008 (*GRW-Sonderprogramm*) was divided 1:1 between the old and new *Länder* (by contrast, the

new *Länder* receive 6/7ths of the available core GRW funding). Second, the allocation of additional funding to one of the main federal instruments for regional innovation (the Central Innovation Programme for SMEs, ZIM) in 2009 and 2010 saw a shift in the programme's focus away from the new *Länder* to cover firms throughout Germany.

Even within the framework of all-regions regional policies, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. In some cases, this regional selectivity has been intensified by the economic crisis.

- In Austria, rural and peripheral areas are of particular concern, where cooperation and bottom-up initiatives are particularly encouraged, e.g. through the activities of the *Regionalmanagements* (regional management offices), which are supported by the *Länder* and the Federal Chancellery. The specific challenges of the Alpine areas in western Austria have also traditionally been a focus of policy intervention, and there are policy instruments dedicated to especially weak areas such as old industrial areas, rural areas or border regions. As all major Austrian agglomerations are located at or close to borders, cross-border relations are considered to be especially important.
- In the Czech Republic, support is available to regions affected by flooding or to the sites of former military bases. For 2008-09, three support programmes were opened: (i) the 'Programme for the revitalisation of premises and areas previously used by the army', which allows municipalities to obtain financial grants to reconstruct or demolish army barracks and surrounding infrastructure; (ii) the 'Programme for the revitalisation of the countryside', which has an annual budget of CZK 150 million (about €6 million) and provides small amounts of 'seed' money for village projects; and (iii) the 'Programme for the revitalisation of areas affected by natural disasters', which is a response to the increased number of floods affecting the Czech Republic.
- Within the overall policy focus on strengthening competitiveness in Finland, some regions are recognised as having weaker development potential and are eligible for additional support. Furthermore, regions that experienced substantial job losses linked to sudden structural change are eligible for additional assistance (currently, 11 sub-regions are categorised as suffering from 'sudden structural changes'). In these areas, the relevant ministries, together with the centres for business, traffic and environment (ELY), the regional councils and the affected municipalities, develop integrated plans to address these changes.
- A new Renewal Fund in Denmark allows discretionary targeting of resources to address local economic crises. The otherwise aspatial Globalisation Strategy suddenly acquired a peripheral dimension by making local economic restructuring one of the priority areas of the new Renewal Fund, thereby establishing a framework for direct government support for localities in economic distress.

- Under regional policy in France, a broad range of ‘zones’ is eligible for targeted support, including designated aid areas, rural renewal zones (*zones de revitalisation rurale*, ZRR), labour market renewal areas (*actions de revitalisation des bassins d’emploi*), and defence restructuring zones (*zones de restructuration de la défense*). Funding is also allocated via project calls, notably in the field of cluster development. By contrast with the spatial focus on weaker regions in some countries, a further development in France is a greater awareness of the need to allow concentration to occur, including in the Ile-de-France region, and to focus on the ‘driving force’ of urban centres.<sup>92</sup>
- Under the General Framework on Spatial and Sustainable Development in Greece, specific regional development policies have been designed to address the territorial difficulties. Mountainous areas and the numerous small islands are two spatial categories considered to be facing significant structural problems and are given special policy attention under EU-funded policies. The NSRF and the General Framework are also promoting a shift from the dominance of the capital city to a more balanced network of cities, by improving economic performance and services through a polycentric system (national development poles and networks of neighbouring cities). At the regional/local level, the challenge is to move from one or two dominant regional centres to several small and medium-sized centres.
- The unitary regional policy in Italy (combining EU and domestic policies, within a framework set by a National Strategic Document, NSD) covers the whole country, although the strategic focus is on the *Mezzogiorno*: an aggregate of eight Southern regions which includes the four EU-designated Convergence regions. The NSD assigns the majority of resources to this area (e.g. 85 percent of the domestic Fund for Underutilised Areas, FAS). Despite the emphasis placed on the *Mezzogiorno* by the NSD and notwithstanding recent political developments along the same direction (notably the development of a Plan for the *Mezzogiorno*), this focus on the *Mezzogiorno* is counteracted by two important changes in resource allocation. First, the FAS funding that was allocated to National FAS Programmes for the *Mezzogiorno* regions - notably for the programmes Education, Research and Competitiveness, and Networks and Mobility - was reallocated to other priorities, suggesting that in reality the main focus of the interventions remain the Convergence regions, rather than all the *Mezzogiorno* regions, as set out in the NSD. Second, the launch of anti-crisis measures and economic development measures throughout the national territory (such as the ‘development contracts’ under the recent ‘development law’) implies an overall erosion of regional policy in favour of non-territorial policies.
- In the Netherlands, compensatory economic development support is paid to the north of the country, following the cancellation of a high-speed rail link. This means that the north continues to benefit from enhanced regional development

<sup>92</sup> La Documentation française (2010) *Métropoles et territoires : nouvel eldorado de la croissance*, Les mercredis de la Documentation française, 9 juin 2010. <http://www.ladocumentationfrancaise.fr/entretiens/formats/flash/metropoles.shtml>



funding post-2010. In June 2008, it was announced that €2.1 billion compensation would flow to the north (and the northern part of Flevoland). Of this, €1.8 billion is for regional infrastructure investment and to improve connections within the area. The remaining €300 million is for regional economic development - 50 percent for the regional level and 50 percent for the Ministry of Economic Affairs.

In the EU12 countries, spatially targeted initiatives are increasingly provided through Cohesion policy programmes, and they are no longer solely domestically funded (e.g. the Czech Republic and Romania). As mentioned previously, EU Cohesion policy forms the basis of regional policy approaches in a number of countries, most notably the EU12 countries, but also in Greece and Portugal and to a lesser extent in Spain.

- In the Czech Republic, the commitment to EU Cohesion policy has contributed to an overall decrease in the national resources targeting regional socio-economic disparities and purely 'national' policy instruments. On the basis of an extensive screening procedure aimed at identifying national programmes that overlap with EU Structural Funds support, many national programmes or sub-programmes were reoriented to co-finance EU Structural Funds and Cohesion Fund programmes for the 2007-13 period.
- Until 2010, Romania operated a number of domestic measures to address regional disparities. The focus was on disadvantaged areas, mostly mining areas, industrial estates (from 2001) and science and technology parks (from 2002). However, these domestic policy interventions have not been renewed. From 2010, where such policies are pursued, they will be funded through EU Cohesion policy programmes.

### **6.3 New interpretations and definitions of regions**

One of the interesting recent developments in the spatial orientation of regional policy is that new ways of targeting support are being applied, involving a wider range of policy interventions at different spatial scales. Territories and spaces such as macro-regions, regional corridors, city-regions, localities and 'functional areas' are becoming the subject of integrated regional development interventions, as opposed to single schemes applied to areas within fixed administrative boundaries. Of particular note is the emphasis on functional areas and on cities and city networks. In Finland and Poland, the adoption of functional areas as a basis for policy support involves a broader interpretation of the 'region', as is already the case in Sweden and which has also been evolving in France.

- In Finland, the concept of a region has become broader and adapted more flexibly to specific territorial circumstances. The country's new regional development strategy '2020' considers regions as regional operational entities. For example, the operational entity of an urban region may include large rural areas as well as suburban areas. Regions may also be viewed as development corridors and networks (e.g. the Helsinki metropolitan region network).
- The 2010 draft of the National Spatial Development Concept in Poland sets out a new classification of functional areas. The focus is placed on networking Poland's

largest metropolitan areas, as well as supporting centres outside the network metropolis. Three types of functional area are identified, designated according to:

- the *degree of urbanisation*, which includes various types of urban areas - cores and their functional areas, and functional areas of countryside outside the cities;
  - the *type of development potential* because of the occurrence of specific spatial or geographic phenomena, such as mountainous areas, border areas etc; and
  - the *requirement for restructuring and development of new functions* in areas where there is an accumulation of socio-economic development problems and a need to respond with a mix of appropriate regional policy instruments.
- Related to the competitiveness approach, functional regions were introduced in Sweden as the main spatial unit for regional policy in the 2001 Government Bill. The emphasis on functional regions is based on the view that dynamic labour markets play a key role in increasing economic growth. Acknowledgement of this also brought the concept of regional enlargement to the fore, since a larger labour market is seen to provide advantages over smaller markets in terms of economic growth.
  - In France, a similarly functional approach is being taken to area designation in response to different development issues. The use of different rural, urban and industrial restructuring zones was noted above. The scope for using large interregional poles, e.g. in the south-east and west of the country, is referred to in the context of the forward-looking policy approach *Territoires 2040* with a focus on different types of 'territorial systems'. In the past, the varying spatial scales used for responding to political requirements have been characterised as a certain *géographie de l'urgence* with a multiplicity of intervention levels and territorial sub-divisions raising concerns about the performance of territorial policies.<sup>93</sup>

As the preceding examples suggest, urban centres are frequently at the heart of policies for driving growth within functional areas. Targeting support on urban or regional centres as growth poles to promote regional development and balanced development has already been used for some time - for example through competitiveness poles in France and Belgium (Wallonia), development hubs and centres in Ireland, and innovation poles in Greece.

There is now some evidence that a more 'localised' policy approach to spatial targeting is emerging, as the examples of Norway, Ireland and the United Kingdom indicate.

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<sup>93</sup> Laborie, J-P. (2000) 'L'aménagement du territoire vu par un géographe', *Territoires 2020*, Revue scientifique de la DATAR, no. 1, juin 2000, pp. 9-11.

- The 2009 White Paper in Norway emphasises community development, links between small and medium-sized cities and larger urban areas, and the importance of using local development capabilities. The regional policy focus of the current government is to strengthen the role of districts/municipalities in ensuring equal living standards across the country. Thus, while the overall budget of the Ministry of Local Government and Regional Development has increased by one quarter since 2005, the budget flowing to local government grew by one-third. New measures have been introduced to encourage local development (see Chapter 7) and a new Competence Centre for Rural Areas (*Distrikssenteret*) is to act as a resource centre for supporting peripheral rural areas.
- In Ireland, efforts have been made to organise territorially-oriented policies for promoting growth around development hubs and centres. This focus on hubs could intensify as the government seeks to promote growth in high-value-added sectors of the economy, which rely on high-quality infrastructure, labour and services. However, a subsidiary strand of economic development support has also been focusing on the sub-regional level. The Enterprise Ireland strategy for 2008-10 highlighted the need for the agency to support the development of the enterprise environment in rural communities and at the local level. Actions include local and community-based infrastructure and other initiatives to increase business start-ups. Other, more ‘fine-grained’ approaches to spatial targeting have also been discussed, whereby Enterprise Ireland would work more with county enterprise boards, universities and technology institutes to promote local development.
- Finally, a more localised approach to the spatial focus of regional development is emerging in the United Kingdom (England). In place of the current regionalised framework of regional policy intervention (regional development agencies, regional economic and spatial strategies), the new policy proposals foresee all parts of England being eligible to form Local Economic Partnerships (LEPs), made up of local councils and business, although their eventual configuration and levels of funding remain unclear. The new Regional Growth Fund alludes to some spatial targeting within one of its objectives (to support in particular those areas and communities that are currently dependent on the public sector to make the transition to sustainable private sector led growth and prosperity). However, it is not yet clear how this will operate in practice or whether the focus will be on maximising growth by concentrating on areas of greatest potential or on compensating for the loss of significant public investment in particular areas.

## 6.4 Summary

An all-region approach characterises the regional policies of many European countries, whereby every region is expected to maximise opportunities for growth and competitiveness in order to increase national efficiency. This approach is, however, not universal, and several countries still have a strong, regionally-selective approach to regional policy intervention. Even within the framework of all-regions regional policies, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development

challenges. In some cases, this regional selectivity has been intensified by the economic crisis.

More recently, a number of countries are looking at new ways to define and designate regions and target support, involving a wider range of policy interventions at different spatial scales. Territories and spaces such as macro-regions, regional corridors, city-regions, localities and ‘functional areas’ are becoming the subject of integrated regional development interventions, as opposed to single schemes applied to areas within fixed administrative boundaries. Targeting support on urban centres as growth poles to promote regional development and balanced development has already been used for some time; there is now also some evidence of a more ‘localised’ policy approach to spatial targeting in a few countries.

Looking to the future, efforts to agree functional areas and apply more ‘place-based’ approaches to spatial targeting will rely on gaining local-level support for the areas agreed, transferring the ideas set out on paper into practice, securing the required resources, and coordinating the potentially wide range of organisations and actors involved, all of which can be challenging. Meanwhile, shifting regional development priorities and the emergence of new regional policy themes and priorities, such as energy and demographic change, will continue to impact on spatial targeting.

Table 7: Changes to the spatial orientation of regional policy, 2009-10

Austria	No explicit changes to the spatial orientation of policy. An emerging theme is migration. As urban areas have a higher share of immigrants, this may imply a shift in focus towards more urban areas.
Belgium	In Flanders, the approach to regional policy is horizontal and not spatially targeted. In Wallonia, support is concentrated on disadvantaged target areas, in particular, rural and urban 'franc zones' ( <i>zones franches</i> ) eligible for special aid, such as fiscal incentives and bonus instruments.
Bulgaria	No recent change. Changes to the spatial targeting of aid were made in 2008, when the Regional Development Act made provision for 'areas for targeted support', e.g. mountain, border and Black Sea areas that are recognised to have special development needs. An all-region development policy is also implemented through the system of regional planning.
Cyprus	Due to Cyprus' small size and population, little distinction is made between policy targeted on designated development areas and the policy measures for areas with particular development characteristics, such as the rural areas and the depressed urban areas.
Czech Republic	Areas designed for targeted support include structurally affected regions, economically weak regions, and rural regions. Support is also provided for former military areas, regions affected by natural disasters, regions suffering from severe environmental problems or high unemployment.
Denmark	No recent change. The spatial orientation of policy is both geographically comprehensive and selective. Regions are required to establish one (or more) regional growth fora, each having the task of monitoring and furthering economic development in its region. At the same time, peripheral regions get additional support through national development programmes.
Estonia	In terms of narrow regional policies, three internal regional development grants are available for the development of Setomaa (south-east Estonia), the programme for Peipsiveere (eastern Estonia) and the regional programme for Kihnu Island. All other grants are available for all regions.
Finland	The overall spatial focus of policy has not changed, but the concept of a region has become broader and more adapted to specific circumstances. A new regional development strategy 2020 examines regions as operational entities viewed in the context of development networks and corridors. Policy focus remains on strengthening competitiveness across the country, but policy instruments are also available for regions which have weaker development potential.
France	Regional policy takes an 'all-territory' approach, and no region is excluded. Greater openness to allowing concentration in key centres is apparent. At sub-regional level, a variety of zones are identified for targeted support, e.g. rural renewal zones, labour market renewal areas, and defence restructuring zones.
Germany	Only limited changes in spatial focus. No changes were introduced to the spatial focus of the Solidarity Pact, the Investment Allowance, the NRW <i>Land</i> strategies or the Finanzausgleich. Additional crisis-related funding was allocated to the to the GRW, to be divided 1:1 between old and new <i>Länder</i> , and additional funding was allocated to the Central Innovation Programme for SMEs, shifting the programme's focus away from the new <i>Länder</i> to cover firms throughout Germany.
Greece	The June 2008 General Framework for Spatial Planning and Sustainable Development aims to impact on the spatial orientation of sectoral policies. Specific policies are in place for mountain areas and small islands. The entire country is eligible for regional aid, with no significant rate differentiation until after 2010.
Hungary	Hungarian regional policy covers all seven NUTS 2 planning regions. Each Regional Development Council, together with the corresponding Regional Development Agency, draws up a Regional Development Concept, implements financial plans and ensures the efficient use of national and regional resources.
Ireland	The current regional aid map favours the BMW region (particularly), as well as the South-East and small islands in the South-West. More generally, as opposed to a focus on lagging regions, territorially-oriented policies are focussed on the idea of growth around development hubs and centres.
Italy	Since the agreement of the regional aid map in 2007, no formal changes have been made. However, resources available through spatially targeted measures have been cut as a result of the economic crisis, and greater emphasis is placed on national policy interventions.
Latvia	A component of regional policy targets specifically supported areas, which are defined using indicators including the level of unemployment and tax revenues per inhabitant.

Lithuania	A programme for the reduction of social and economic differences of the regions for 2007-2010 targets seven regional centres, namely Alytus, Marijampole, Mazeikiai, Taurage, Telsiai, Utena and Visaginas. In addition, a programme for 'problem' areas is also in place. Assisted areas are identified on the basis of socio-economic criteria.
Luxembourg	Regional aid limited to narrowly-defined designated areas.
Malta	No change. Where they exist, aspects of regionally oriented policy are targeted on the island of Gozo.
Netherlands	Peaks in the Delta is an all-region approach, with transitional provisions and extra funding (plus a more broadly-based programme) in the north. The Peaks focus is on regional strengths. However, compensatory funding for the north post-2010 is available, due to the cancellation of a high-speed rail link.
Norway	The 2009 White Paper has a strong emphasis on community development. Support is differentiated, so that most flows to the most disadvantaged areas. The weight attached to district policy has increased markedly under the current government, as has more general municipality support. Stress on community development. Competence Centre for Rural Areas established in 2008.
Poland	Work on a new National Spatial Development Concept (KPZK) will provide the basis for national spatial planning policy up to 2030. The draft document (May 2010) places particular emphasis on networking of Poland's largest metropolitan areas. At the same time, it is recognised that urban centres located outside the network need to obtain adequate dedicated spatial and regional policy support to stimulate their endogenous potentials.
Portugal	No significant changes in the spatial focus of Portuguese regional policy since the launch of the Structural and Cohesion Funds programmes. At a policy instrument level, there has been a change in territorial eligibility for municipal associations and metropolitan area participation in the NSRF's global grants.
Romania	There is virtually no domestic policy in place which is not linked to EU Cohesion policy. Up to 2010, a number of domestic measures were taken to address regional disparities. The focus was on disadvantaged areas, mostly mining areas, but these measures have not been renewed. Some measures remain to support areas facing particular development challenges, notably mountainous areas, but these are not well resourced.
Slovakia	According to the State aid map, maximum aid intensities (50 percent) are available in Eastern Slovakia and Central Slovakia. In Western Slovakia the ceiling is 40 percent and in Bratislava Region 10 percent. Regional aid for large enterprises divides Slovakia into three zones: districts with unemployment rates over 15 percent, from 10-15 percent, and below 10 percent, with variable rates of award applying in each case.
Slovenia	A scheme for restructuring former mining areas was extended (2007-13) to stimulate investment and job creation, human resource development and economic infrastructure. In addition, assistance is provided for the development of Roma settlements via local infrastructure investment (€2.7 million over three years). Areas with indigenous minorities are also assisted through loan and grant-based support to investment, farm cooperatives and job creation.
Spain	The spatial focus of Cohesion policy remains in line with the strategy formulated in the NSRF. There have been no significant changes to the spatial orientation of the FCI or the Regional Investment Grant.
Sweden	No change to the spatial focus of the regional growth policy. All types of regions are perceived to have unique qualities which can offer attractive environments for businesses, residents and visitors. However, the rural dimension is also high on the policy agenda, particularly following the adoption of the national Rural Development Strategy in March 2009. Recent thinking has focused on the need to include urban issues more in the regional growth activities, since in the past they have largely concentrated only on integration aspects.
United Kingdom	Prior to May 2010 election the Grant for Business Investment and RDA funding had pro-equity criteria to decide regional allocations. New policy focus is at the local rather than the regional level. New Regional Growth Fund alludes to some spatial targeting (to support areas and communities that are currently dependent on the public sector make the transition to sustainable private sector led growth and prosperity).

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).

## 7. A BROADENING ARRAY OF MEASURES: DEVELOPMENTS IN THE USE OF REGIONAL POLICY INSTRUMENTS

Regional policy instruments have changed considerably over time, moving from a rather narrow focus on regional investment aid and infrastructure support to a broader approach, encompassing support to the regional business environment. More recently, regional programming has become more prominent, in part reflecting the influence of Cohesion policy, but also in line with efforts to support endogenous development. In addition, the importance of sectoral initiatives to regional policy-making has been increasingly recognised. This chapter reviews recent changes with respect to these aspects of regional policy, focusing on targeted regional policy instruments, broader support to the business environment, programming approaches and relevant sectoral policies.

### 7.1 The changing importance of regional aid instruments

While the overall role of regional incentives has declined over time, recent changes in aid schemes have been made mainly to make them more attractive to businesses in the context of the economic crisis. At the same time, targeted support for areas facing structural change has gained in importance.

Several developments in incentive policies over the past year are related to the economic crisis, but change is also due to broader policy developments (see also Table 9). Whereas in many countries, regional aid support was made more accessible in the direct aftermath of the crisis, more recently there have been the first indications of a tightening of award conditions in a difficult budgetary context. Overall, the importance of regional aid is found to be changing in some countries, which is also in line with the wider policy context. In addition, there have been developments in the thematic focus of regional aid with sustainability issues being given more prominence.

#### *7.7.1 The effect of the crisis on regional aid schemes*

As discussed in the 2009 EoRPA Report,<sup>94</sup> regional policymakers have adapted their regional aid schemes in several ways in response to the crisis. Some countries have relaxed aid scheme eligibility criteria (Belgium, France, Portugal, Spain), increased maximum award rates (Finland, Germany, Portugal, Spain), and/or extended areas eligible for support (France, Germany, United Kingdom). In Italy, wide-ranging fiscal exemptions are planned for the *Mezzogiorno* but have not been launched to date.

In some countries, a staged approach to crisis-related use of regional aid can be observed. While initial measures were intended to tackle the impact of the crisis on business investment, the focus subsequently moved on to the consolidation of public finances. An example is Spain, where, after eligibility criteria had been eased and award rates per job increased in late 2008, eligibility conditions and award criteria were modified in June 2010.

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<sup>94</sup> Yuill D, with McMaster I and Mirwaldt K (2010) *Regional Policy under Crisis Conditions: Recent Regional Policy Developments in the EU and Norway*, EoRPA Paper 09/2, European Policies Research Centre.

With a view to optimising the efficient use of resources in the current economic downturn, more demanding requirements for certain activities were introduced in terms of quality criteria and technological improvements. Alternative funding sources will be taken into account to avoid overlaps in funding.

The available data suggest that the reaction of stakeholders to these measures has varied. Some countries experienced strong interest in the available support. This is the case in Germany, despite the co-financing requirement at *Land* and local authority levels, and despite the availability of other crisis instruments. Similarly, Norway witnessed a significant increase in loan provision in 2009, reflecting the impact of the economic crisis, with support provided by Innovation Norway helping to fill the gap created by reduced bank-lending. In other countries, the response has been weak. Demand for the main regional aid instrument in France decreased in 2009 despite less onerous access conditions, and the job creation ratio deteriorated due to the crisis. Also, in the United Kingdom (Scotland), demand for grants under the Regional Selective Assistance scheme was low, at least in part related to the changed economic climate.

There is some evidence that the importance of regional aid has declined in certain countries, partly because of the lack of interest outlined above, but also because of wider, post-crisis policies. This is reflected in cutbacks in aid budgets and the redeployment of funds to other policy instruments, as the following examples illustrate.

- Netherlands: Cuts were made to the budget of the Investment Premium (the sole national regional aid) following a fall in demand that was partly crisis-related. Also, in line with evaluation recommendations, the scheme has been moved from a spatially-oriented budget line and is now included with measures promoting a level playing field for the Netherlands in international competition.
- United Kingdom (Wales): A July 2010 policy document outlined a post-recession refocusing of government resources, promoting a move away from a culture of direct business support. In this context, the Single Investment Fund is being abolished and reallocated to infrastructure projects in key sectors. While some flexibility to offer funding is being retained for 'regionally important growth businesses' and strategic projects, including inward investment, most of the finance will gradually move to a repayable model.
- France: The budget of the PAT scheme has come under pressure due to a difficult budgetary context and the existence of a competing scheme, the 'Research Tax Credit' (CIR).

### *7.7.2 The influence of broader policy developments on regional aid*

The role of regional aid has also been affected by broader, country-specific developments, but with no clear trend. Whereas substantial changes were made to regional aid in the United Kingdom (England) in the aftermath of the May 2010 General Election, the importance of regional aid in Norway has been confirmed in the 2009 White Paper on regional policy. In Germany, change has been more incremental with the phasing-out of the Investment Allowance now underway.



- **United Kingdom (England):** The Grant for Business Investment (GBI) was frozen after the May 2010 election as part of a wider reduction of government support in the form of grants and subsidies to companies. The initial restrictions on grant awards, which did not involve financial commitments beyond March 2010, have been eased slightly, but contracts for future commitments may still be broken. Two new initiatives with a regional element were announced in the June 2010 budget: a reduction in employer National Insurance Contributions for start-ups in target areas, reflecting an increased role accorded to taxation; and the creation of a Regional Growth Fund (RGF) in 2011-12 and 2012-13 to support increases in business employment and growth that has a broader remit (see Chapter 7.3).
- **Norway:** The importance of the social security concession to regional development was explicitly recognised in the 2009 White Paper, and the need to retain support to sparsely-populated parts of the country in future was highlighted. Further, a new aid measure was introduced from the start of 2008, the *NyVekst* scheme for entrepreneurs with growth potential to promote entrepreneurial activity in the designated aid areas.
- **Germany:** The phasing-out of the Investment Allowance scheme, decided in 2008, started with a first reduction of aid rates in 2010, with the scheme finally ending in 2014. However, the role of aid instruments operated more generally under the Joint Task for the Improvement of Regional Economic Structures (GRW) is not being questioned.

In other countries, approaches to regional aid saw a change in focus or an extension of eligible activities. Following decisions in 2009, telecommunications infrastructure is a new form of investment receiving support under the GRW in Germany, in particular funding for the extension and upgrading of broadband infrastructure. Funding can only be allocated in areas where no competition exists between telecommunications infrastructure providers and where private sector companies do not provide such infrastructure. In the Czech Republic, support in the form of investment incentives was redirected from manufacturing industries to service and technology centres in the context of a long-term competitiveness strategy. In Bulgaria, new types of assistance are available to key investors under a 2009 law, including support for the purchase of land.

In Italy, changes have been made to the regional aid map (approved by the Commission in July 2010) affecting four regions in Abruzzo, Piemonte and Umbria. In three of the regions, the changes were associated with changed economic conditions and the employment consequences of a crisis in a large industrial firm; in the fourth case (one of two changes in Abruzzo), the modifications rectified a mistake in the original submission. The changes to the map do not involve any increase in population (in fact, a marginal reduction).

In several countries, changes to regional aid are associated with a growing focus on sustainability issues. In Belgium (Flanders) the profile of support to environmental investments was raised by transferring funding from the abolished 'growth premium' to the 'ecological premium'. In Wallonia, award rates for environmental aids for SMEs were increased in May 2009, and new support was introduced for large firms and SMEs that invest in sustainable transport. Moreover, a new law on aid for environmental protection and

rational use of natural resources was adopted in Luxembourg in 2009, a year that also saw the introduction of a new R&D aid scheme. An investigation has been launched in Sweden on how to take better account of sustainable growth in regional investment aid.

## 7.2 Renewed support for areas facing structural change

Over the past year, several countries have increased their regional development support for territories that were hit particularly hard by the economic crisis. In order to provide targeted support, some have introduced specific measures, notably for economic restructuring. A 'Renewal Fund' (*Fornyelsesfonden*) has been set up in Denmark, with one of its three priority areas being to support structural change in localities most affected by the crisis. Eligibility is based on unemployment and growth rates as well as the absence of alternative employment possibilities. Projects need to secure co-financing from the Regional Growth Fora. In the Czech Republic, a support programme for economically weak and structurally 'harmed' regions was re-opened in 2010. It is intended for the development of infrastructure and the business environment more generally, the reduction of unemployment, and support for tourism development. In the case of Slovenia, the most severely affected regions, Pomurje and Bela krajina, have been receiving special treatment in 2009 and 2010. In addition, a law targeted at the Pomurje region was adopted in late 2009, including a programme to foster regional competitiveness in 2010-2015, employment incentives, tax relief for investments, and priority treatment for programmes and projects in the region. There are also plans for a similar programme for Bela krajina. Similarly, in France, a support programme is operating to promote the restructuring of disadvantaged regions (see Box 4).

### Box 4: France - targeted support in the crisis via the National Territorial Renewal Fund

As part of the public investment programme, a National Territorial Renewal Fund (*Fonds national de revitalisation des territoires*, FNRT) was launched in February 2008 and endowed with €135 million for the 2009-11 period. Support complements existing initiatives for firms of more than 1,000 and takes the form of unguaranteed loans for intangible investments by firms creating or maintaining 10 to 500 jobs. The fund targets employment zones affected by industrial restructuring where other measures are not available. At the national level, activities are steered by DATAR together with two directorates of the Ministry of Economy, Industry and Employment.

Up to June 2010, 54 employment zones were designated for three years, with 'territorial revitalisation loans' (*Prêts de revitalisation des territoires*, PRT) amounting to €86 million. The leveraging-in of additional capital is systematically built in, thus increasing available funds to an estimated €400 million. At the local level, the loans are allocated by steering committees under the lead of deconcentrated State services and the French SME agency (OSEO). So far, support, which is mainly provided to SMEs from the industries sector, has been distributed relatively evenly across the country, with a slight concentration in the north and east.

Moreover, broader measures for economic restructuring have been initiated during the period under review, which are not related to the current economic climate, but to the characteristics of particular areas in response to other sudden events (e.g. natural disasters, disappearance of employers with important territorial impact).

- **Czech Republic:** A new support programmes targets the revitalisation of the countryside by providing small amounts of ‘seed’ money for village projects. In addition, a renewal programme for areas concerned by the closure of army bases operates via financial grants for municipalities to reconstruct or demolish army barracks and surrounding infrastructure.
- **France:** Contracts are being concluded during 2008-15 to assist localities facing job losses in line with the restructuring of the defence sector. Measures involve support to the local business environment, special plans, social and fiscal alleviations, and the creation of public sector jobs.
- **Spain:** Projects developed in an area concerned by the decommissioning of a nuclear energy plant (Santa María de Garoña - Burgos - in Castilla y Leon) are awarded a bonus of five percentage points, in line with a national plan.

### 7.3 Enhanced support for the business environment

As noted above, the importance of instruments for the business environment has been increasing over the past decade. Some of these instruments have been adapted in response to the crisis and its consequences, but there are also broader policy influences shaping these measures.

#### 7.3.1 Crisis-driven changes to business support measures

Following the crisis, business support instruments have been made more accessible in several countries, with increased funding in some cases in order to stimulate investment. In the case of Austria, award conditions for the main business support instrument (ERP Fund) were eased by reducing interest rates and increasing aid ceilings. As a result, the number of loans granted to SMEs in the first quarter of 2010 tripled compared to the same period in 2009. As for Germany, funding for the ‘Central Innovation Programme for SMEs’ was increased and future commitments assured (see Box 5).

#### Box 5: Germany - more funding for the Central Innovation Programme for SMEs

The Central Innovation Programme for SMEs (*Zentrales Innovationsprogramm Mittelstand*, ZIM), funded by the Federal Ministry for Economics and Technology, was introduced in 2008 to finance R&D projects in individual SMEs in the new *Länder*, as well as collaborative R&D projects involving SMEs and research institutes throughout Germany (see <http://www.zim-bmwi.de/>). The funding ceilings are €350,000 in the case of individual projects and up to €2 million in the case of cooperation projects.

Among changes introduced over the past two years, in January 2009 the federal government’s second crisis package raised the level of federal funding for the ZIM by €450 million in 2009-10 (including €100 million earmarked for the new *Länder*). Geographical eligibility was also temporarily widened, so that firms in the old *Länder* could apply for individual project funding. Moreover, eligibility for all types of funding was extended to larger firms (up to 1000 employees) throughout Germany. In July 2010, the federal government announced that it plans to increase funding for the ZIM in 2011 (to €389 million, from €313 million in 2010) and to ensure further funding increases in subsequent years, on the basis that support for technological innovation is important for future growth.

Other countries have focused on increasing firm liquidity and improving access to business finance more generally, often with a specific focus on SMEs (Belgium (Flanders), Czech Republic, Greece, Ireland, Lithuania, Slovakia). In this context, strategic approaches have been introduced in Portugal and Spain.

- **Portugal:** The ‘Strategy for Accelerating the Implementation of Business Projects’ was announced in July 2010. It aims to address the lack and excessive cost of bank lending through the creation of the ‘NSRF-Invest’ credit line, which provides a mechanism for risk sharing with banks through a system of mutual guarantee. In addition, risk capital and business angel financing is enhanced, and new calls are being opened geared towards the priorities of economic recovery.
- **Spain:** The November 2009 ‘Sustainable Economy Act’ includes measures to improve the business environment, such as reducing administrative requirements for start-ups, facilitating private investment in the development and management of public infrastructure, and the strengthening of policies to support the internationalisation of firms. Furthermore, a ‘Sustainable Economy Fund’ is being set up in support of investment projects in a range of fields (e.g. innovation, technology, ICT, internationalisation, environmental sustainability).

In some cases, governments have started prioritising general business support measures over targeted incentive schemes, partly related to budget cuts and a lack of finance, as the example of United Kingdom illustrates. In Scotland, there has been a move away from grant aid to loan funding, e.g. in support of growth-oriented SMEs exporting outside Scotland. Also, a Scottish Investment Bank is being set up in response to a perceived gap in bank lending to SMEs during the economic crisis. In the case of Wales, aid to business has been refocused, with grants being phased out in favour of repayable forms of support.

Finally, there are countries where funding gaps mean that initiatives could not be implemented to plan. Activities supported under the Industrial Innovation Projects (PII) in Italy have been affected by the crisis, including the withdrawal of project partners. The Ministry of Economic Development has issued guidance on eligible re-modulations, and the changes proposed by project promoters will be assessed by the same evaluation committees that were in charge of the appraisal of the PIIs. In Finland, the Centre of Expertise Programme (see Section 7.4) has also been affected by the downturn, which has meant that some of the objectives have not been met.

### *7.3.2 Other changes to business environment support*

Other changes to business environment support are country-specific. In England, business support is facing considerable modification following the 2010 election. While the ‘Solutions for Business portfolio’ is under review, the Business Links that administered business aid in the regions are facing abolition, with most responsibilities taken over by the central level. The establishment of a ‘Regional Growth Fund’ was announced to promote private sector growth in areas of significant potential, but also to support areas that are expected to suffer from reduced public spending. A consultation on the implementation of the fund is currently underway, and approaches to resource allocation are still being considered, including targeted grants to ‘Local Economic Partnerships’ (LEPs), and capital

investment through competitive bidding or loans and investment. Inward investment promotion is also being restructured, potentially concentrating support on a limited number of larger ‘hubs’ to replace RDA activities in this field.

New business environment initiatives focusing on innovation have been launched in some countries. They include support for the development of regional innovation systems in Sweden (see Box 6). Innovative measures for firm support are being explored in the Flanders region of Belgium, with advisory and training services for SMEs provided via a cheque system. A novelty is the possibility of buying advice from service providers in other European regions in the framework of a European pilot project (‘Knowledge Voucher’, see <http://www.kvoucher.eu/>) with the aim of establishing a transregional support system. A similar voucher system is operated in Ireland by Enterprise Ireland in order to build links between public knowledge providers and small businesses (see <http://www.innovationvouchers.ie/>).

#### Box 6: Sweden – support for regional innovation systems via the RegLab platform

RegLab, which was launched in January 2010, facilitates learning and information exchange on regional development issues (see <http://www.reglab.se>). It provides a platform for joint ventures, seminars and networking based on the needs of its members. These include 12 regions, the Agency for Economic and Regional Growth (*Tillväxtverket*), the Swedish Agency for Innovation Systems (VINNOVA), and the Swedish Association of Local Authorities and Regions. RegLab covers a number of different themes, including competence promotion, cluster development, the evaluation of regional growth issues, and a particular focus on innovation.

Other initiatives for innovation and entrepreneurship are more specifically geared to lagging regions. The federal government in Germany intends to provide high levels of funding for the ‘Enterprise Region programme’ on an ongoing basis in order to stimulate innovation in the new *Länder*. In Italy, progress has been made with respect to the establishment of the *Mezzogiorno* Bank, which will offer loans, guarantees and consultancy services to SMEs in the region, including support to infrastructure investment. Its main aim is to drive job creation, with support targeted at start-ups, young and female entrepreneurs, firm expansion and internationalisation, and R&D.

## 7.4 Towards more coherent and integrated cluster approaches

Cluster initiatives, although not explicitly pursuing regional development objectives, have been an integral part of regional development policies in EU15 countries for some time (e.g. Finland, France, Netherlands, Norway, Sweden). They are also starting to be promoted in some of the EU12 Member States (e.g. Hungary).

Recent evaluations have been carried out on initiatives in Finland and Sweden, with mostly positive findings. According to the evaluation, the Centres of Expertise Programme implemented in Finland has been successful in facilitating competitiveness and attractiveness, particularly in smaller university regions. It has led to an improved division of tasks, strengthened cooperation between different regional actors and has made the use

of R&D resources more efficient by removing overlaps. The programme has also been important in shifting the focus from regional competition to international networking and internationalisation. Evaluators recommended further promotion of the international dimension of the centres and enhanced domestic awareness of the programme. Moreover, coordination of regional needs and national objectives also needed to be improved. In Sweden, regional clusters were positively assessed, notably concerning their role as tools for strengthening regional economies. The evaluation encouraged a more pro-active approach and underlined the importance of securing commitment by the regions. Marketing activities were recommended for promoting cluster initiatives as tools for regional development.

In the case of the Netherlands' 'Peaks in the Delta' approach and the 'competitiveness poles' in France, a number of common challenges can be identified as informing thinking about the future of these initiatives. One of the main issues is the scale or territorial dimension of clusters, and efforts are being made to develop more coherent approaches, bringing together different types of clusters. Another issue is the coordination of clusters with other sectoral initiatives, associated with concerns that the fragmentation of support can create difficulties for project promoters. In both countries, there are signs of a more integrated approach to cluster policy (see Table 8).

Table 8: Cluster strategies in France and in the Netherlands – characteristics and trends

	Netherlands: 'Peaks in the Delta'	France: 'Competitiveness poles'
Scale/ territorial dimension	A key issue concerns the importance of the clusters, i.e. which regionally-based clusters are of genuine national importance? Also, clusters should be defined on a functional basis and be strongly related to the market.	The poles are torn between a rationale of competitiveness and territorial development. The government has announced a 'new era' of poles in 2010, promoting inter-pole approaches, but without losing their territorial 'anchor'.
Cluster categories	Differentiation: national peaks (part of national innovation policy), regional peaks of national significance ('Peaks in the Delta'), and regional peaks of regional concern.	Distinction between poles of international and national rank. In addition, there are smaller clusters that are less R&D-oriented ( <i>grappes d'entreprises</i> , SPL).
Targeting of funding	The Ministry of Economic Affairs believes that 22 clusters are too many, and that support should be more concentrated. It is keen on supporting the best projects, while the provinces are not unnaturally concerned about the spatial allocation of support.	It has been argued by some that support is too dispersed across 72 poles. In practice, funding concentration is significant with around 20 poles receiving 80 percent of support. In May 2010, six poles lost designation due to inadequate performance, and six new poles were selected.
Funding	Current arrangements are complex, as funding must be found ( <i>post-hoc</i> ) for each project individually.	The system is complex since it involves four funding sources, each applying a different approach.
Coherence/ integration	Synergies with innovation policy are being sought in response to resource constraints. However, there are challenging differences between national innovation policy (sectoral, national, focus on mainstream R&D) and the 'Peaks' approach (regionally-based, innovation-oriented, relatively broad). Interaction between policy teams could lead to more integrated approach and reduce applicants 'shopping around' for support.	Efforts are being made to develop a more integrated cluster policy better tailored to territories. This will encompass strategic clusters involving R&D activities (i.e. competitiveness poles) as well as more localised clusters, focusing on firm support. From 2010, c.100 innovative <i>grappes d'entreprises</i> receive support, thus complementing the poles. This will be followed by the launch of an integrated cluster approach in 2013 with a greater focus on local innovation potentials.

## 7.5 Regional programming and strategy development

Programmes and strategies constitute important frameworks for regional policymaking and implementation, and their role has been enhanced, notably in the context of EU Cohesion policy programming. Depending on the context, programmes operate at regional or local levels. The degree of targeting also varies, and, while most are implemented across the country, specific programmes have sometimes been developed for lagging areas or areas with potential. With notable exceptions, regional programming approaches have not changed greatly in the recent period.

### *7.5.1 Continuity vs reform of regional programmes*

As stated earlier with respect to policy objectives (see Chapter 5), the consequences of the economic downturn have not had a significant effect on the content or progress of regional development programmes.

In Sweden, most regions decided not to alter their regional development programmes (or Structural Funds programmes), as the overall strategies are considered to be sufficiently broad and remain valid during periods of negative economic growth. A recent evaluation recommended the use of benchmarking activities and enhanced knowledge-transfer between regions across Sweden and Europe. Programmes also needed to be made more adaptable and concentrate resources on ‘innovative environments’, a notion that needs to be defined more clearly. In the case of France, change under the mid-term review of the contracts is expected to be limited after funding was brought forward under the State-region contracts (CPER) to enhance public investment in the crisis. The same is true in Spain, where the broad policy domains implemented in the framework of EU Cohesion policy are considered to be in line with the needs of the economy in the current crisis context. In Germany, many of the *Länder* governments have been active in channelling support to business in the context of the crisis, often through instruments co-financed either by federal support (such as the GRW) or by EU Cohesion policy.

In some countries, programming was reformed or adapted in line with domestic policy and institutional developments, with changes ranging from extensive in the United Kingdom (England) to incremental in Finland.

- **England:** After the May 2010 elections, the Integrated Regional Strategies, introduced by the previous government to bring together the RDAs’ Regional Economic Strategies and Regional Spatial Strategies prepared by Regional Assemblies, were abolished. The implications of this sudden development are currently being investigated by the UK Parliament with a particular focus on house-building, local cooperation on regional-level issues (e.g. on waste management and flooding) and the use of data collated by the now-defunct regional-level local authority leaders’ boards.
- **Finland:** In the context of the regional administrative reform (see Chapter 8), the role of the regional strategic programmes has been reinforced, as they have been given the scope to influence the strategies and target agreements of the newly introduced centres for business, traffic and environment (ELY centres) and regional

administration agencies (AVI agencies). In parallel, the new regional cohesion and competitiveness programme (KOKO) was introduced based on a merger of several programmes. It supports local strategy development in favour of regional competitiveness and balanced regional development based on cooperation, networking and innovative working methods (e.g. feasibility studies, pilot projects).

### *7.5.2 Local strategies and programmes*

In addition to developments in regional strategies, change over the past year concerned local-level programming approaches. New initiatives mainly target capacity development in municipalities as a way of enhancing regional policymaking more generally.

- In Norway, the importance of local capacity-building was recognised as crucial for effective regional policy implementation, notably to address key challenges (e.g. population decline). In this context, a new programme for local community development (LUK) has been introduced. Another new programme (*Bolyst*) aims to encourage people or places to create more attractive locations. It operates via a competitive tendering system: responses to the initial call for proposals were encouraging and are currently being appraised.
- In Portugal, efforts are being made to improve the effectiveness of the global grants managed by municipality associations and to accelerate the implementation of municipal projects more generally. Initiatives include increased co-financing rates for municipality interventions in Regional Operational Programmes, greater flexibility in calls for tenders, increased award levels for specific infrastructure projects, and training seminars.
- The same applies to Spain, where a new initiative is being introduced. It is implemented via the National Fund for Employment and Local Sustainability in support of local government investment projects that are ready for immediate implementation. It aims to contribute to social sustainability by financing current expenditure arising from the provision of social services under the responsibility of local governments.

### *7.5.3 Development of new strategies*

In two of the EU12 Member States (Hungary, Poland), changes are characterised by attempts to establish domestic development strategies that are aligned with EU Cohesion policy but nevertheless function as self-standing strategic documents.

In Hungary, nine development funds were reorganised in the form of multi-annual framework documents (operational programmes) in the context of the 2008 reform of domestic regional policy. These are aligned with, but independent (also financially) from EU Cohesion policy programmes. The current Regional Spatial Development Operational Programmes (OPs) were adopted by the Regional Development Councils in 2009 and are valid until the end of 2010. This is a testing period for the new decentralised approach to domestic regional development, while the Central Spatial Development (OP) still needs to be developed. In the meantime, national regional development policies are implemented



mainly through fiscal measures. In the case of Poland, work on the overall systemic management of development policy is on-going with attempts to create a strategic, all-encompassing programming approach (see Box 7).

#### Box 7: Poland - Towards a strategic, all-encompassing programming approach

In the context of wider reforms to development policies, a new hierarchy of strategic programmes has been elaborated. It is based on national and regional documents in the fields of socio-economic, regional and spatial development. In addition, nine 'horizontal' development strategies are planned, including the theme of regional development, which will be implemented via operational programmes and must include a clear financial framework to inform budget decisions. The strategies are independent from, but aligned with, Cohesion policy programmes and, from a regional policy perspective, may help clarify the scope and impact of different development activities in a given territory.

The new National Strategy for Regional Development (NSRR) will be a key point of reference for horizontal strategies. The aim is to finalise the strategies by 2011, but so far progress has been uneven. As part of the reform process, the regional contracts (see Chapter 8), mainly used to outline domestic co-financing for Structural Funds programmes, are also being reformed. Pilot contracts are currently being prepared for launch in 2014.

## 7.6 Territorial and thematic regional development strategies

The past year has seen the introduction of a number of targeted initiatives, focusing on particular regions or areas. They were developed in order to promote regional potential (Netherlands) or to target areas with specific needs (Sweden, Malta).

- **Netherlands:** Recent strategy development has focused on the south-east of the country in order to enhance its role as a high-tech region. The long-term strategy 'Brainport 2020' is currently being developed for consideration by the Ministry of Economic Affairs.
- **Sweden:** A new programme has been introduced with the aim of developing local services in sparsely-populated and rural areas.
- **Malta:** A novel initiative has been proposed based on the '*Eco Gozo*': *A better Gozo* (2010-12) document promoting the island as an eco-region. It covers a wide range of activity fields, promoting sustainable jobs, a better quality of life, the natural and cultural environment, social care, and the island's identity.

In some cases, the economic crisis has had an impact on the development and implementation of targeted regional development programmes. In Greece, the programme in favour of the Pindos region was put on hold, and there are doubts about funding being available in the immediate future. In Bulgaria, the launch of the programme in support of 'areas for targeted support' has been delayed and is now planned to start in 2011. The initiative is managed by the Ministry of Regional Development and Public Works in

cooperation with relevant district administrations based on a 2010-13 draft programme. Targeted municipalities will receive support with project design and implementation with the aim to enhance integrated development. The programme is intended to complement Structural Funds interventions that are mainly focused on larger-scale structural issues.

Other targeted development programmes implemented in the EU12 are marked by continuity. In Hungary, support is made available to six 'seeded areas' at national and regional level. These are homogenous with respect to economic, social or environmental characteristics, and their uniform development is of strategic importance. In the case of Latvia, assistance is oriented towards 'specially supported areas', mainly remote rural areas, which receive support in the fields of infrastructure and entrepreneurship. In Lithuania, programmes have been developed to assist lagging municipalities. Lastly, in Estonia, three of the internal grants operated under domestic regional policy are targeted at specific regions. In addition, specific programmes are in place for sparsely-populated areas in the fields of water management and electricity.

## **7.7 Sectoral policies with an impact on regional policy**

As discussed further below, most sectoral policies have an implicit or explicit influence on regional development. As it is not possible to cover them in detail in this chapter, the following sections provide information on recent developments in the fields of urban policies, spatial planning and infrastructure policies by way of example.

### ***7.7.1 Urban policies***

The development of urban centres has been receiving increased attention, notably in the context of growth-oriented regional policies (see Chapter 5). Urban policies are often part of regional development policies in countries characterised by a lack of urban centres outside the capital city. Initiatives seek to enhance the role of cities and towns and their surroundings in order to achieve a more balanced development across the country as a whole. At the same time, some countries are giving more prominence to their capital regions.

In the case of France, the policy focus is two-fold. On the one hand, it seeks to increase the role of the capital city via the *Grand Paris* initiative; on the other hand, it aims to strengthen the French network of *métropoles*. The latter, defined as areas with a high density of added-value-creating activities, are considered to play a key role as growth motors. The legal basis for more targeted support to large cities is still under development.

Another example is Finland, where support for urban development has continued broadly unchanged in the past year but has received renewed attention in the context of the '2020' strategy (see Chapter 4.2). At the start of 2010, one of the key instruments supporting urban development (i.e. the regional centre programme) was subsumed under the new regional cohesion and competitiveness programme (KOKO). Furthermore, a letter of intent was signed between the State and 14 municipalities in the Helsinki region in order to improve the competitiveness of this particular region, including the launch of nationally significant projects for 2010-11 in the fields of innovation and internationalisation.

In addition, efforts are being made in Portugal to develop a polycentric urban system. This forms part of the government's 2010-2013 programme (discussed above) to emphasise the economic, social and territorial objectives of regional policy, which is interpreted as a place-based and integrated sustainable development approach.

In some countries, policies also target specific development problems faced by urban centres. For example, in Italy, the focus of urban policy is on renewal projects in deprived urban areas within so-called 'urban franc zones' (ZFU) selected through a long and tiered procedure involving the regional authorities and the national coordinating administration. The most recent ZFU was introduced in May 2010 for the municipality of L'Aquila, devastated by the earthquake of April 2009. However, decisions on necessary decrees and administrative procedures for the tax concessions foreseen by the scheme are still pending and the measure is not operational.

### *7.7.2 Spatial planning*

As discussed above, there have been moves to bring regional development and spatial planning activities closer together. This is particularly important in countries where the availability of space for industrial estates is an issue. It applies, for example, to the Netherlands, where a new policy approach has been agreed between the national, provincial and local levels. It involves: the forward planning of industrial estates in the context of national government targets; financing; the encouragement of municipal cooperation; and improvements to the quality of industrial estates. Funding will be provided to 'top projects', soil remediation works and the restructuring of a limited number of industrial estates of national importance. Similar efforts are being made in the two regions of Belgium. In order to maximise the use of available space, brownfield covenants are being signed in the Flanders region. Additional support has also been made available for the development of industrial sites in Wallonia.

More generally, the role of spatial planning has been given more prominence within integrated approaches to regional development. In Sweden, attempts have been made to enhance the role of the Regional Development Programmes in the field of town and county planning as part of a more integrated regional development approach - relating to which a new law on Physical Planning was submitted to Parliament in March 2010. In the case of Ireland, a new strategy document (Horizon 2020) reasserts a commitment to development outside the core areas. In this context, there are plans to enhance the attractiveness of potential sites for investors in cooperation with local authorities.

### *7.7.3 Infrastructure development*

Infrastructure development is often regarded as being crucial to regional policy, as it can contribute to enhancing the attractiveness of localities as well as their accessibility, notably in countries characterised by low population density. Various initiatives are supported through regional policy in the infrastructure field, ranging from classic transport investment (Norway) to investment in business infrastructure more widely (Ireland, United Kingdom (Wales), France). In some cases, funding has been increased in response to the economic crisis.

Among countries with major developments is Norway, where a National Transport Plan has been produced for 2010-19, envisaging a 45 percent increase in spending compared to the current policy phase (2006-2015). In line with the regional policy objective of enabling people to live where they wish, a core aim is to expand labour markets via transport improvements; the increased spending also responds to the need to create construction jobs in response to the economic crisis. The budget for the new Transport Plan is far in excess of direct regional policy funding from the Ministry of Local Government and Regional Development.

Other countries are enhancing support given to business infrastructure more widely, notably the development of broadband. This has been the case in Ireland in the context of the above-mentioned 'Horizon 2020' strategy. The upgrading of transport and energy provision as well as the extension of high-speed broadband have been identified as key areas of infrastructure improvement. In France, a Fund for Digital Territorial Development was set up to support the provision of accessible and open infrastructures and networks in less densely populated areas. Lastly, in the United Kingdom (Wales), the Single Investment Fund is being reallocated to infrastructure projects (e.g. broadband development), and the development of a strategic infrastructure plan is being considered.

## 7.8 Summary

The recent period has seen a continued shift away from regional aid towards broader business support measures in some countries. At the same time, there has been increased interest in instruments providing targeted support for areas facing structural change. Overall however, regional strategies and programmes have remained broadly unchanged.

A decline in regional aid is due partly to the economic crisis, reflecting reduced demand and cutbacks in government funding (France, Netherlands). It is also linked to wider policy concerns about the effectiveness of grant-based support (United Kingdom). While the future of regional aid seems uncertain in some cases (Netherlands), the continued importance accorded to regional aid has been confirmed in other countries (Germany, Norway). Changes have been made to the scope and themes covered by regional aid (Bulgaria, Czech Republic, Germany), with a growing focus on sustainability issues (Belgium, Luxembourg, Sweden).

At the same time, new instruments have been established to support areas affected by the crisis and faced with structural change (Denmark, Czech Republic, France, Slovenia). Targeted programmes have also been launched in response to particular territorial needs (Czech Republic) or sudden events (Czech Republic, France, Spain).

Business support instruments have gained in importance over the recent period. Support has been made more accessible (Austria) and funding increased (Germany) in response to the crisis, with efforts underway to increase business liquidity. More generally, the crisis has been a driver in the shift from grant-based schemes to broader firm support (United Kingdom). In terms of broader policy developments, a complete overhaul of business support has been launched in the United Kingdom (England). In addition, innovation measures have been introduced or adapted (Belgium (Flanders), Sweden).

Cluster initiatives continue to be pursued in a number of countries, with recent evaluations demonstrating mostly positive results (Finland, Sweden), although recommendations include the need to make further increases in strategic linkages and visibility. Common challenges concern the scale of clusters and their link with the territory, as well as coordination with innovation policies and other support mechanisms (France, Netherlands).

The uptake of the available support has varied. While some countries witnessed an increased interest in regional aid and business support in the current crisis context (Austria, Germany, Norway), demand has been falling in other places (France, United Kingdom (Scotland), Netherlands). There have also been cases where project implementation or performance has suffered from funding gaps related to the general economic downturn (Finland, Italy).

The greater use of regional programmes over the past decade has given regional policy stability in some countries (e.g. France, Spain, Sweden). This approach is, however, under review or subject to adaptation (Finland), and recent developments in United Kingdom (England) demonstrate a radical break with past practice with respect to the use of regional strategies. At the same time, some countries have increased their emphasis on local capacity development (Norway, Portugal, Spain). Attempts are also being made to improve the inter-relationship between domestic policy interventions and EU Cohesion policy programmes in some of the EU12 Member States (Hungary, Poland). Targeted strategic initiatives have been introduced in some countries, promoting regional potential (Netherlands) or focusing on areas with specific needs (Sweden, Norway, Malta). Some programmes have experienced difficulties in the current economic climate and have had to be suspended (Bulgaria).

Lastly, there have been changes with respect to sectoral policies that have implications for regional policy. Progress has been made in the field of urban policies, both regarding the strategic development of urban centres (Finland, France) and more targeted initiatives (Italy, Netherlands). New approaches are evident in the field of spatial planning (Belgium, Ireland, Sweden) and infrastructure development (France, Ireland, United Kingdom (Wales), Norway).

Table 9: Regional incentive frameworks and recent changes, 2009-10

Austria	New federal support for young entrepreneurs and innovation in SMEs, offering a range of support, including grants and loans.
Belgium	Flanders: SME growth premium discontinued at start of 2009 and budget transferred to ecological premium with more attractive conditions and award rates; award conditions relaxed across a range of schemes in response to the crisis. Wallonia: SME award ceilings for environmental aid increased in May 2009; anti-crisis measures extended in February 2010; new aid for large firms and SMEs for investments in sustainable transport.
Bulgaria	Law on Investment Promotion amended in April 2009: Strategic investors can be granted the right to purchase State or municipal land at lower prices; targeted at individual investors, consortia or clusters, associating higher education establishments, R&D centres or local authorities.
Cyprus	Main instruments are direct grants (air route development, broadband infrastructure development, energy efficiency and renewable energies, SMEs in agrotourism and manufacturing)
Czech Republic	Main instruments are direct grants (e.g. transport, ICT), investment incentives, fiscal measures, schemes (e.g. infrastructure). From 2009, investment incentives are no longer available to manufacturing industries, but only to service or technology centres.
Denmark	No change. Regional aid ceased in 1991. For 2007-13, aid is available only for small no-bridge islands in designated areas under the Structural Funds.
Estonia	Main instruments are direct grants (manufacturing, accommodation, renewable energy, technology investment, tourism), soft loans, guarantees.
Finland	No major change since four regional aids were merged into two in 2007 (business development aid and development aid for the business environment).
France	Changes in March 2009 in response to economic crisis (lower investment minima, fewer jobs), but low demand for PAT in 2009/10 and reduced job creation ratio. New areas designated from reserve population quota, partly to alleviate restructuring of defence sector. Mid-term revision of aid map during 2010.
Germany	In response to the crisis, award maxima for large projects in certain 'C' and 'D' areas increased as permitted by EU temporary framework measures. New rules approved on support to telecommunications infrastructure. Aid rates under Investment Allowance reduced (scheme to be phased out by 2013).
Greece	Main instruments are grants, leasing subsidies, tax allowances and wage subsidies available under 2004 Development Law, most recently amended in 2009. No change to the 2007-13 OPs but, in response to the crisis, stress placed on policy instruments to enhance on firm liquidity, including SME support (2009 call). ). A new Development Law has been prepared and it is now under public consultation.
Hungary	Main instruments are direct grants (e.g. provided by Innovation Fund), fiscal measures (e.g. tax relief for SMEs, tax allowances)
Ireland	Main instruments are regional aid (industry and services) scheme, direct grants under regional aid (tourism) scheme, tax base reduction and deferment (tourism)
Italy	No change to most aid schemes due to lack of resources or implementing legislation. Fiscal advantages planned for the south in 2011-13 as part of anti-crisis package. New automatic tax credits for investment and job creation have faced budget restrictions. Minor changes were made to the regional aid map .
Latvia	Main instruments are direct grants (high added-value investment, technology and eco-innovation, renewable energy and energy efficiency, new products and technologies, business creation and development, SMEs in specially supported areas), soft loans for SMEs
Lithuania	Main instruments are direct grants (energy provision, tourism, guarantee payments, support for credit, broadband), aid schemes in free economic zones
Luxembourg	Regional and SME aid scheme laws revised in 2008 in response to new EU aid frameworks. New R&D aid scheme and introduction of innovation fund in June 2009. Updated law on aid scheme for environmental protection and rational use of natural resources adopted in February 2009.
Malta	Main instruments are direct grants (investment aid, innovative start-ups, sustainable tourism). Investment aids for businesses in Gozo have been proposed in the framework of the 'Eco Gozo' policy.
Netherlands	Investment Premium continued (reflecting cross-border competition concerns), though with lower budget (crisis impact). 2009 evaluation of IPR, underlining its role to promote a level playing field in international competition.

Norway	No recent changes to the main components of the regional aid package determined for the 2007-13 period: regional investment grants and regional risk loans. Other instruments include transport aid and social security concession. The NyVekst scheme for entrepreneurs with growth potential was introduced from the start of 2008.
Poland	Growing share of regional State aid, mainly via tax concessions to businesses in Special Economic Zones; regional self-governments increasingly active in developing schemes in the context of Regional OPs; increasing aid levels also under sectoral OPs; some aids introduced in response to the economic crisis in line with EC frameworks.
Portugal	Main instruments are schemes for R&D, innovation, and SME modernisation and internationalisation. Changes introduced in response to the crisis, enhancing awards, facilitating advances, extending types of eligible projects, and adapting criteria to the new financial context.
Romania	Main instruments are domestically-funded regional aid scheme in place since 2008 to support large investment projects. Other regional aids offered via regional OP, notably targeting development of sustainable business support structures of regional and local importance, rehabilitation of unused polluted industrial sites and preparation for new activities, and development of micro-enterprises.
Slovakia	Main instruments are direct grants and tax allowances for large firms, direct grants (e.g. SME support, tourism, energy efficiency and technologies, innovative technologies in industries and services, diversification measures)
Slovenia	Main instruments are direct grants (e.g. operating aid and aid for newly created firms, tourism, energy efficiency, renewable energies, broadband); fiscal measures in economic zones; direct grants and financial incentives for FDI. Next to an initial stimulus that included government guarantees, loans, and equity investments, the first crisis response was adopted in December 2008. It covered subsidies, tax concessions and reductions, especially for SMEs.
Spain	Temporary changes in late 2008 in response to the crisis: more weight to stable job creation; higher award rates per job; method of measuring jobs eased; decision-making processes speeded up. In June 2010, eligibility conditions and award criteria were tightened due to difficult budgetary context. Also, efforts to avoid overlaps in funding.
Sweden	No major changes to available aids following on from changes in July 2005, except for transport grant and aid ceilings. Investigation launched together with regions on how to take account of sustainable growth in regional investment aid.
United Kingdom	<u>England</u> : Grant for Business Investment frozen since May 2010 election; reduced focus on paying grants and subsidies to companies. New initiatives announced (e.g. reduction in employer National Insurance Contributions for start-ups; creation of Regional Growth Fund). <u>Wales</u> : New policy document announces move away from culture of direct business support, with Single Investment Fund (SIF) abolished and reallocated to infrastructure projects and six key sectors; some funding still available for 'regionally important growth businesses' and strategic projects. <u>Scotland</u> : Low demand for grant under RSA in 2008-10 despite extension of geographic coverage of SME support in response to crisis.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).

Table 10: 2007-13 Regional aid coverage and ceilings for large firms

Country	Aid Area Coverage	Aid Ceilings
Austria	22.5% of the population (3.4% under 'a' areas; 19.1% under 'c' areas)	30% ('a' areas; 20% from 2011); 15-20% ('c' areas)
Belgium	25.9% of the population (12.4% under 'a' areas; 13.5% under 'c' areas)	30% ('a' areas; 20% from 2011); 10-15% ('c' areas)
Bulgaria	100% of the population under 'a' areas.	50%
Cyprus	50% of the population under 'c' areas.	15%
Czech Republic	88.6% of the population under 'a' areas (exclusion of capital city)	36-40% (30-40% from 2011)
Denmark	8.6% of the population under 'c' areas.	10-15%
Estonia	100% of the population under 'a' areas	40-50%
Finland	33% of the population under 'c' areas.	10-15%
France	18.4% of the population (2.9% under 'a' areas; 15.5% under 'c' areas)	50-60% ('a' areas); 10-15% ('c' areas)
Germany	29.6% of the population (18.6% under 'a' areas; 11% under 'c' areas)	15-30% ('a' areas); 10-15% ('c' areas)
Greece	100% of the population (92.1% under 'a' areas; 7.9% under 'c' areas)	30-40% ('a' areas; 20-40% from 2011); 30% ('c' areas; 15-20% from 2011)
Hungary	100% of the population (72.2% under 'a' areas; 27.8% under 'c' areas)	30-50% ('a' areas); 25-30% ('c' areas; 10-30% from 2011)
Ireland	50% of the population under 'c' areas.	10-30% (10-15% from 2011)
Italy	34.1% of the population (30.2% under 'a' areas; 3.9% under 'c' areas)	30-40% ('a' areas; 20-30% from 2011); 25% ('c' areas; 15% from 2011)
Latvia	100% of the population under 'a' areas.	50%
Lithuania	100% of the population under 'a' areas	50%
Luxembourg	16% of the population under 'c' areas.	10%
Malta	100% of the population under 'a' areas.	30%
Netherlands	7.5% of the population under 'c' areas.	10-15%
Poland	100% of the population under 'a' areas.	30-50%
Portugal	76.7% of the population (73.9% under 'a' areas; 2.8% under 'c' areas)	30-52% ('a' areas; 20-50% from 2011); 10-15% ('c' areas)
Romania	100% of the population under 'a' areas	40-50%
Slovakia	88.9% of the population under 'a' areas (exclusion of capital city)	40-50%
Slovenia	100% of the population under 'a' areas	30%
Spain	59.8% of the population (42% under 'a' areas; 17.8% under 'c' areas)	30-40% ('a' areas; 20-40% from 2011); 25-30% ('c' areas; 10-20% from 2011)
Sweden	15.3% of the population under 'c' areas	10-15%
UK	23.9% of the population (4.6% under 'a' areas; 19.3% under 'c' areas)	30% ('a' areas; 20-30% from 2011); 10-30% ('c' areas; 10-15% from 2011)

Source: Own calculations from: Eurostat data (see Wishlade F. (2010) *Can the past be a guide to the future? Regional Aid Control Post-2014*, Draft EoRPA paper 10/2, European Policies Research Centre, University of Strathclyde, Glasgow).



Table 11: Changes in regional business environment support, 2009-10

Austria	No major change. Different support schemes for the business sector administered by the European Recovery Programme (ERP) Fund (low-interest loans, grants and guarantees). Focus on innovation and sustainable growth under the Fund's regional programme. In 2010, interest rates were reduced and aid ceilings increased in response to the crisis. As a result, the number of loans granted to SMEs in the first quarter of 2010 tripled compared to the same period in 2009.
Belgium	In <u>Flanders</u> , two agencies were merged in January 2009 to provide a one-stop approach to business support. Support for strategic training and investment projects has been revised, and a new call was launched for industrial site agreements. Accessibility of business financing was improved in response to the crisis. Flanders is promoted as an 'innovation centre' under 'Flanders in Action'. In <u>Wallonia</u> , the second 'Marshall Plan' focuses more strongly on sustainability and aims to enhance the competitiveness poles programme.
Bulgaria	A Concept for the Construction of New Important Industrial Zones with Governmental Support was launched in 2008 to develop industrial zones in order to attract highly productive and export-oriented investments. It is implemented via the National Company for the Construction of Industrial Zones set up in 2009. The main criteria to select suitable locations will include: availability of suitable plots of state (municipal) land; local workforce availability; adequate local infrastructure, as well as conditions to develop the necessary infrastructure.
Cyprus	No change. Efforts are focussed on the diversification of the national economy, based on a shift towards sectors with high added-value, and improving the business environment.
Czech Republic	Second stimulus package (February 2009) with implications for the business environment, comprising a range of revenue and expenditure measures, notably aimed at SME support during the downturn. These include: provision for accelerated write-downs on capital goods; tax reductions on the purchase of small motor vehicles; as well as grants and subsidies. The stimulus packages also include modest capital injections in order to ease SME liquidity.
Denmark	The 2005 Business Development Act provided a statutory basis for innovation, ICT, entrepreneurship, human resource, tourism and peripheral area measures to be implemented by the Regional Growth Fora. Wide variety of measures, but used variably by region, mainly via framework measures in support of business environment.
Estonia	The public institute Enterprise Estonia (EAS), initially set up for Structural Funds implementation, supports businesses by providing financial services, advice, partnership opportunities and training for entrepreneurs, R&D institutions and the public and third sectors. It is accountable to the Ministry of Economic Affairs. Young and small businesses are the main beneficiaries, with services including start-up grants, consultancy, training opportunities and business infrastructure support.
Finland	Innovation support/networking highlighted in 2009-11 regional strategy of Ministry of Employment and Economy. Centre of Expertise programme continues (2007-13) while Regional Centre, Rural and Island programmes were combined into new regional cohesion and competitiveness programme (KOKO) in 2010. 2010 <i>ex post</i> evaluations stress need for mobilisation of business sector, and promotion of networks and synergies.
France	Extension of phase 2 of competitiveness poles at inter-ministerial meeting in May 2010; six new poles selected in field of eco-technologies; support enhanced by funding from national loan taken up in response to the crisis. Launch of <i>grappes d'entreprises</i> and moves towards more coherent cluster policy. Fund for Digital Territorial Development launched in December 2009. Continued support for Rural Excellence Poles.
Germany	Additional innovation support for SMEs (ZIM) and extended geographical eligibility in response to the crisis. New support for business-oriented, non-profit, research institutions in the new <i>Länder</i> (INNO-KOM-Ost). Strengthened commitment to future cluster support (Enterprise Region programme) in the new <i>Länder</i> .
Greece	No change. Calls launched in support of the self-employed and for the support of the SMEs in the framework of regional OPs and for the implementation of energy efficiency measures. Projects funded by JEREMIE included in regional OPs.
Hungary	No change. A growth pole programme fosters innovation and exports. It supports clusters and horizontal economic development by funding physical and human infrastructure developments. The growth poles cover seven regional centres: Budapest, Győr, Pécs, Szeged, Debrecen, Miskolc and the Székesfehérvár-Veszprém axis.
Ireland	Major NDP cutbacks in response to crisis; Gateway Innovation Fund suspended. New strategy of Industrial Development Agency-Ireland, reasserting commitment to development outside core areas in cooperation with local authorities; identification of key areas of infrastructure improvement.
Italy	FAS support targeting strategic interventions to be implemented under 'Plan for the South'. Progress with the launch of <i>Mezzogiorno</i> Bank for SME and investment support. Applications for Industrial Innovation Projects selected. New development law with implications for regional development.

Latvia	Changes to business environment support based on amendments to documents governing EU Structural and Cohesion Funds. Although the NSRF and the three OPs were approved in late 2007, implementation rules for the each activity were issued in 2008-09 by the Cabinet of Ministers.
Lithuania	The national economic recovery plan has important impacts on the business environment, in particular the aim to cut red tape by 30% over the next two years. This involves: improving the legal environment; improving labour market regulation; improving financial relations between the state and business; improving the competitive environment; and measures to reduce red tape.
Luxembourg	No significant change. Luxembourg for Business agency established to enhance business support.
Malta	Several measures to support the economy were adopted in 2009 with the aim of increasing public investment in infrastructure and the environment, as well as supporting manufacturing, tourism and SMEs and household purchasing power. Public investment measures are of a temporary nature, but no concrete end-date foreseen for <i>ad hoc</i> firm support. SME support under 'Eco Gozo' policy.
Netherlands	Negotiations on future orientation of 'Peaks' programmes. New approach to industrial estates policy agreed (enhanced municipal cooperation); provincial industrial estates programmes under development. New 'strong regions' policy under development for post-2011. Strategy development for mainports and the South-East ('Brainport 2020').
Norway	Three new Centres of Expertise selected in 2009 (tourism, off-shore drilling, energy and emissions trading). Regionalisation activities of Research Council of Norway: 2007-17 Programme for Regional R&D and Innovation; set-up of regional research funds. New 2010-19 National Transport Plan with increased spending, partly in response to the economic crisis.
Poland	No change. Main instruments organised under the sectoral OP Innovative Economy. Significant funding to business support under regional OPs in line with regional needs. Implicit regional orientation of business support elements of crisis response (concentration on major urban centres).
Portugal	'Strategy for Accelerating the Implementation of Business Projects' announced in July 2010, facilitating access to finance, enhancing flexibility for projects and simplifying procedures; new calls geared towards priorities of economic recovery.
Romania	No change. The regional OP aims to improve inadequate regional business structures, especially the lack of utilities and space for economic activities, as well as information and communication technologies. Efforts to attract investment and to enhance regional and local economies by supporting localities with development potential. Eligible activities include work on buildings, infrastructure (roads, utilities, broadband) and other activities to develop business structures.
Slovakia	No change. NSRF competitiveness target to be achieved by support for infrastructure development, sustainable growth and improvement of human resources. An integrated network of RDAs promotes endogenous development and cooperation between public and private actors. The RDAs provide a wide range of services: project management, information points, strategic planning, training etc.
Slovenia	Business support is implemented in the EU Operational Programme for Strengthening Regional Development Potentials. Activities are implemented in line with the priorities Competitiveness and Research Excellence, and Economic Development Infrastructure.
Spain	Building on sectoral crisis measures, 'Sustainable Economy Act' published by the government at the end of 2009 to contribute to the renewal of the Spanish growth model, structured around three key themes: improved productivity and competitiveness, environmental sustainability and stronger human capital through professional training. Creation of Sustainable Economy Fund.
Sweden	Promotion of coordinated approach in regional research and innovation policies. Increasing interest in climate and energy-related themes. Continued support to promote businesses and research in the regions. New initiatives to enhance regional innovation systems ('RegLab', 'Innovation for Growth' projects). Evaluation of Regional Cluster Programme recommends further extending it.
United Kingdom	In <u>England</u> , the 'Solutions for Business' portfolio has been under review since the May 2010 election, and the Business Links that administered business aid in the regions are facing abolition. Regional Growth Fund announced as new initiative. In <u>Scotland</u> and <u>Wales</u> , budget cuts and a lack of finance have strengthened the move away from grant aid to loan funding.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).

## 8. RESCALING GOVERNANCE AND IMPROVING COORDINATION DEVELOPMENTS IN REGIONAL POLICY ADMINISTRATION

### 8.1 Introduction

The administration of regional policy has been subject to a long-term ‘paradigm shift’ in the policy field. This well-documented trend has involved a move away from top-down interventions designed and implemented by central government to an approach that responds more to regional or local specificities and is administered by a wide range of bodies and actors.<sup>95</sup> This policy approach is rooted in a range of economic development concepts that have emerged over the past few decades: new economic geography, endogenous growth theory, new institutionalism and new regionalism. What these concepts have in common is the emphasis they place on the specific characteristics and resources of different territories in explaining agglomeration and other territorial development patterns, the varied spatial impact of economic development processes, and the need for policies to take this specificity into account.

From the perspective of regional policy administration, the most striking feature of this approach has been the move towards a multi-level system. The top-down approach to designing and implementing policy by central government has been superseded by various forms of regionalisation, encouraging and enabling region-specific responses to economic and social problems. Combined with the emergence of bottom-up initiatives at regional and local levels, new coordination mechanisms have developed, with an increasingly complex web of vertical and horizontal relationships influencing information flows, resource decisions and the coordination of physical and human assets.

There are efficiency and accountability rationales for this approach. The efficiency objective is to realise the full utilisation of the potential of every place or region, addressing the under-utilisation of resources. The accountability rationale is that by drawing a wider range of sub-national interests into the administration process, including elected authorities, a stronger sense of regional accountability or ‘ownership’ of policies is created in the process of administration.<sup>96</sup>

Each of these rationales is contested. In many countries, line ministries are strong, and it may be difficult to ‘regionalise’ sectoral priorities and resources. Critics of the new regional policy paradigm suggest that it overemphasises regional level endogeneity at the expense of supra-regional, exogenous factors that can have an important role in shaping regional policy processes. This refers particularly to opportunities and constraints produced by the continued involvement of the nation-state as a sponsor of regional policy.<sup>97</sup> In recent

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<sup>95</sup> See, for instance Bachtler, J. and Yuill, D. (2007) ‘Regional Policy in Western Europe: Taking Stock of the Shift in Paradigm’, *Beiträge zur Ballungsraumforschung*, Heft 10, RUFIS, Bochum.

<sup>96</sup> Jones, M., MacLeod, G. and Harrison, J. (2006) ‘In what sense a regional world? Institutional legacies, territorial fixes, network topologies’. Paper presented at the 2006 Annual Meeting of the Association of American Geographers, Regional Studies Association Session, ‘Whither Regional Studies’, Chicago.

<sup>97</sup> Moulaert, F. and Mehmood, A. (2008) ‘Analysing regional development and policy: a structural-realist approach’, *Regional Studies* 42, pp. 103-118.

years, questions have also been raised about the efficiency and accountability of new regional policy approaches. There is a concern that new coordination mechanisms may merely add another institutional dimension or layer to a regional policy space already occupied by several sub-national and central government institutions. This may involve cumbersome and costly bureaucratisation, institutional overload and overlap. Ensuring accountability may be problematic in regionalised policy delivery systems that operate through networks, partnerships and deliberative fora. These debates are being sharpened by current austerity measures being introduced to respond to the global economic crisis.

Against this background, this chapter discusses recent changes to the implementation of regional policy in Europe (summarised in Table 13). After introducing the main differences in policy governance among EU countries, the chapter first considers those changes to the spatial scale for policy delivery. It then discusses recent developments in policy coordination, and lastly it considers changes intended to improve the efficiency or accountability of regional policy administration.

## 8.2 Regional policy governance: differences between countries

An important starting point is to recognise the significant differences in regional policy administration among European countries.<sup>98</sup> The main differences relate to the administrative roles of sub-national levels (notably regions), their decision-making autonomy and their policymaking capacity. Much of the variation is rooted in the different constitutional and institutional arrangements, administrative traditions and procedures. Several concepts have been applied to capture various models of regional policy governance and methods of regionalisation in the EU (Table 12):<sup>99</sup>

- the *federalised model* - in federal systems, regions with elected parliaments and significant budgetary, legislative and fiscal powers play the dominant role in regional policymaking (Belgium, Austria, Germany). In Germany, for example, the states (*Länder*) are constitutionally responsible for regional policy, but the federal level is empowered to participate in regional policy as part of a 'common task' arrangement. A constitutional assignment of responsibilities is common in federal and devolved systems but is not universal. In Austria, regional policy is not assigned to either the federal or regional (*Land*) level, and a form of multi-level governance has developed over time, based on the management and implementation requirements of policy.
- the *regionalised model* - where regions with elected parliaments and limited budgetary and fiscal powers exercise significant authority in regional policy matters. In regionalised unitary states, there is a significant devolution of regional policy functions (e.g. Spain, Italy, United Kingdom).

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<sup>98</sup> A broad overview of delivery mechanisms and approaches can be found in Yuill, D., Ferry, M. and Vironen, H., with McMaster, I. and Mirwaldt, K. (2008) *New Policy Frameworks, New Policy Approaches: Recent Regional Policy Developments in the EU and Norway*, EoRPA Paper 08/1, EPRC, University of Strathclyde, October 2008, Section 5.1.

<sup>99</sup> See, for instance, Russell Barter, W. (2000) *Regional Government in England: A Preliminary Review of Literature and Research Findings*, DETR, London.

- the *devolving unitary model* - in these cases, regions have limited powers, possibly including elected parliaments and some budgetary and fiscal powers. However, central government remains a dominant actor and funding for regional policy comes from central transfers. Regions exercise some authority in regional policymaking but only within a framework set by the centre (Czech Republic, Denmark, Finland, France, Hungary, Netherlands, Poland, Slovakia, Sweden).
- the centralised *unitary model* - in which central government unbundles its organisation but not its authority regionally. The region has no elected parliament, and no budgetary or fiscal powers, and all financial resources are transferred from the centre. Regional policy is controlled by the national administration with government offices or agencies acting as implementing authorities in the regions. This can reflected their small size (Cyprus, Luxembourg, Malta) or limited tradition of regionalisation (Bulgaria, Estonia, Greece, Latvia, Lithuania, Ireland, Portugal, Romania, Slovenia, and United Kingdom (England)).

A comparative overview of these types of states is provided in Table 12, indicating the representation, budgetary and legislative powers (in broad terms) of sub-national actors.

### 8.3 Rescaling governance: regionalisation

As noted above, there has been a general trend towards more regionalisation of policy responsibilities in regional policy over the past two decades - but through very different processes of decentralisation, devolution and deconcentration, and at different speeds.

#### 8.3.1 Political regionalisation

Arguably most significant are processes of political decentralisation, whereby political powers or responsibilities for decision-making are transferred to sub-national levels.

- In Denmark, five new regions were established in 2007 with directly-elected regional councils and substantial regional policy responsibilities under the 2005 Business Development Act.

A reform programme in Sweden, establishing a new intermediate level of governance alongside the national level and that of the local municipality, has been piloted in the regions of Skåne and Västra Gotland over the past decade. Here, elected regional governments have responsibility for implementing and coordinating State regional development measures at the regional level, and their roles have been strengthened in recent years. In 2009, it was agreed that these elected governments were to be made permanent, and that similar responsibilities were to be made permanent, and that similar responsibilities were to be given also to the regions of Halland and Gotland. Applications from county councils to set up similar regional self-governing bodies are being considered.<sup>100</sup>

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<sup>100</sup> Regeringens skrivelse, *Strategiskt tillväxtarbete för regional konkurrenskraft, entreprenörskap och sysselsättning*, 27 May 2010, p. 11.

Table 12: Overview types of state and regional policy responsibilities

Country	National Responsibility for Regional Policy	Sub-National Actors
Federal system. Wide-ranging sub-national powers: elected parliament; budgetary powers; legislative powers; right to levy taxes		
Austria	Federal Chancellery, ÖROK (Austrian Conference on Regional Planning)	9 self-governing states - <i>Länder</i> (NUTS 2)
Germany	Federal Ministry for Economics and Technology	16 self-governing states - <i>Länder</i> (NUTS 1)
Belgium		3 self-governing territorial Regions and 3 language-based Communities
Regionalised unitary systems. Advanced sub-national powers: elected parliament; some budgetary powers, limited right to levy taxes		
Italy	Ministry for Regional Affairs, Ministry of Economic Development	20 regions with elected regional councils (assemblies) and Presidents/Governors (head of the regional governments).
Spain	Ministry of Economy and Finance (Directorate General for Community Funds)	17 directly-elected regions
UK	Scottish Government, Welsh Assembly, Northern Ireland Assembly	3 directly-elected regions (Scotland, Wales, Northern Ireland)
Decentralised unitary systems. Limited sub-national powers: regional decentralisation; some elected parliaments but limited budgetary powers; major financial transfers from central government; limited right to levy taxes.		
Czech Rep	Ministry for Regional Development	14 directly-elected regions
Denmark	Regional policy Ministerial Committee, Danish Growth Council	5 directly-elected regional councils, 6 regional growth fora (partnership bodies)
Finland	Ministry of Employment and the Economy	20 regional councils, one directly-elected the rest elected by municipal councils.
France	Ministry for Rural Areas and Territorial Development, DATAR as key agency	26 regions
Hungary	Ministry for National Development Policy and Economy and National Spatial Development Council	7 statistical regions, each with a regional development agency
Netherlands	Ministry of Economic Affairs	12 provinces
Poland	Ministry of Regional Development	16 directly-elected regions
Slovakia	Ministry for Construction and Regional Development	8 directly-elected regions
Sweden	Ministry of Enterprise, Energy and Communications	21 provinces, 2 directly-elected regions
Centralised unitary systems. No sub-national powers: regionalisation without regional government: no elected parliament, right to levy taxes or budgetary powers; all powers and resources controlled by central government		
Bulgaria	Ministry of Regional Development and Public Works (MRDPW)	6 statistical planning regions
Cyprus	Planning Bureau, Ministry of Finance	Non-regionalised
Estonia	Ministry of Interior (within this, Minister of Regional Affairs)	Non-regionalised state, 15 counties
Greece	Ministry of Regional Development and Competitiveness	13 regions (state appointed)
Ireland	Department for Enterprise, Trade and Employment	Non-regionalised state, 2 regional planning authorities
Latvia	Ministry of Regional Development	Non-regionalised state, 26 districts
Lithuania	Ministry of the Interior	Non-regionalised state, 10 counties
Luxembourg	Ministries of Interior and Spatial Planning	Non-regionalised
Malta	Office of the Prime Minister	Non-regionalised state
Portugal	Ministry of Environment and Spatial Planning	18 districts, 2 autonomous regions
Romania	Ministry of Regional Development	42 counties
Slovakia	Ministry for Construction and Regional Development	8 regions
Slovenia	Government Office for Local Self-Government and Regional Policy	Non-regionalised
UK (England)	Department for Business, Innovation and Skills (BIS) and Department for Communities and Local Government (CLG) (England only)	In England, 9 statistical regions each with an RDA (soon to be abolished)

Source: Adapted from Loughlin, J. (2000). 'Hard Choices, Policy autonomy and priority-setting in public expenditure: Autonomy is strength, in S. Gibson (ed.) *English identities in the context of UK devolution*, The British Council, London

- The reform of the statutes of autonomy of the region in Spain, which foresees further devolution of powers to the regions, has progressed further during 2009. Although no more statutes have been formally approved by the national parliament during this year, the internal process has advanced considerably in the region of Castilla-La Mancha and, to a more limited extent, in Extremadura, Murcia, Navarra and Melilla.
- Lastly, in Poland, legislation in recent years has gradually extended the responsibilities of regional self-governments, and the new National Strategy for Regional Development includes plans to confirm their role as the major decision-making structures at sub-national level.

### 8.3.2 Administrative regionalisation

Processes of administrative regionalisation seek to regionalise administrative authority, responsibility and financial resources for providing public services. In the Netherlands, the 2007 coalition-government agreement strongly favoured decentralisation to the provinces and municipalities.<sup>101</sup> A more decentralised approach was part of the 2007-11 government programme,<sup>102</sup> but the practical impact on regional policy so far has not been significant - although both urban economic policy and aspects of industrial estates policy were decentralised. Governance issues were also prominent in negotiations on the next phase of 'Peaks in the Delta'. Negotiations between the central and provincial levels remain to be concluded, but there is an assumption that the provincial role is likely to increase in any future coalition agreement. In Norway, administrative decentralisation has been associated with various developments including the 'Responsibility Reform' (*Ansvarsreformen*). One development of note is that the counties are now more involved in the funding of regional research. The country has been divided into seven research fund regions, and a triple-helix approach has been adopted, involving universities and research institutes, the private sector and the counties. This is intended to help the counties align activity and funding with their regional programmes and strategies. Moreover, the counties now own 49 percent of Innovation Norway, the country's main economic development agency. In Belgium, the Flanders region continues to push for the further regionalisation of competences, notably in the field of labour market policies.

In some cases, Cohesion policy has had a role in changing the balance of resources allocated at different levels or in processes of administrative decentralisation. In Portugal, the governance architecture for Cohesion policy was designed during the NSRF and programme-formulation stage. It has involved elements of decentralisation by increasing the share of funding managed through regional programmes and the setting-up of global grants for associations of municipalities. A related development in March 2010 was the signing of a memorandum of understanding between the government and the National Association of

<sup>101</sup> Coalition agreement, English version, Section 6.  
<http://www.government.nl/policy/balkenende4/regeerakkoord/index.jsp>

<sup>102</sup> Ministerie van Algemene Zaken (2007) *Samen werken samen leven, Beleidsprogramma Kabinet Balkenende IV 2007-2011*, June 2007, Section 6.2.

Municipalities and Parishes (ANMP), which aims to strengthen the status of municipalities as strategic partners in development policy.

In some EU12 Member States, the institutional arrangements for the administration of Cohesion policy have contributed to the establishment of new regional-level administrative structures. In 2006, five planning regions were established as public bodies in Latvia; they took on planning responsibilities in 2007 (including administration of EU funds) and completed the reform process in July 2009, with the election of new regional councils. In Hungary, seven NUTS 2 statistical planning regions have been in operation since 1998. Each region has its own Regional Development Council that prepares medium-term strategic development concepts in line with the objectives of the national Spatial Development Concept. These operational programmes correspond with the action plans of the EU cohesion policy programmes, but they are independent - also financially - from the Regional Operational Programmes under EU cohesion policy. The competency over the disbursement of decentralised funding has gradually been shifted from the traditional county level to the level of the NUTS 2 regions.

### *8.3.3 Fiscal regionalisation*

The extent of fiscal decentralisation is sometimes used as an indicator of the importance of decentralised or devolved systems; indeed, recent research has argued that effective regional policy action in tackling disparities depends on fiscal decentralisation.<sup>103</sup> It can also be important in setting the context for multi-level governance systems. Heavy reliance on vertical transfers (either in the form of grants or shares in nationally collected or pooled taxes), particularly those tied to specific policies determined by the centre, limits the freedom that regions have to decide how to use the money and constrains regional action in steering economic development. Fiscal regionalisation has been part of the policy debate in some Member States for several years (e.g. Poland), although this has not yet led to significant reforms.

In contrast, federal countries, such as Germany and Austria, already have extensive and well-established systems of fiscal decentralisation, with specific types of taxation being collected and spent at different geographical levels, as well as agreed or constitutionally-based fiscal equalisation systems for redistributing resources between regional and local authorities with different levels of per capita tax revenues.

In the Netherlands, the 2007 coalition-government agreement argued for ‘expanding local taxation while limiting state taxes’.<sup>104</sup> However, this has not been implemented as yet. Similarly, in Italy, Law no. 42 of 5 May 2009 on fiscal federalism has been approved by the Italian Parliament (although a general development, it has consequences for future regional policy). However, the implementation of this law is still pending, due to the lack of implementation legislation. In Belgium, the Flemish government is pushing for increased fiscal and financial regional autonomy. A government note requests the division of

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<sup>103</sup> Rodrigues-Pose, A. (2010) *op. cit.*

<sup>104</sup> Coalition agreement, English version, Section 6.  
<http://www.government.nl/policy/balkenende4/regeerakkoord/index.jsp>



competences to be institutionalised based on Article 35 of the Constitution ('Copernicus reform'), i.e. via the definition of exclusive competences of the federal level, leaving the regions and communities in charge of all remaining residual powers.<sup>105</sup> This would effectively shift the balance of power towards the regions.

It is important to note that different modes of regionalisation can take place within the same country, the asymmetric approaches to devolution and decentralisation in Spain and the United Kingdom being two prominent examples. Finland also combines elements of political and administrative regionalisation (see Box 8).

#### Box 8: Finland - administrative regionalisation and piloting of regional government

In Finland, the Ministry of Employment and the Economy has overall responsibility for regional development. Municipalities act through regional councils (19 in all) in managing functions related to regional development. However, while the regional councils remain important, particularly for coordinating the various regional development tasks, the more operational tasks are now carried out by the new centres for business, traffic and environment (ELYs), which were introduced as a result of the regional governance reform (ALKU project). The key change in the past year has concerned the culmination of the ALKU project at the beginning of 2010. The project aimed to strengthen the regional development system and to clarify the role of regional development in the decision-making processes of the government and the different sectoral ministries. In addition, the reforms provided the conditions for the regional councils to influence the steering of the State's regional resources in the regions, as well as to coordinate the various development measures of the State and the municipalities. One of the key changes introduced by the ALKU project concerns the reorganisation of authorities responsible for regional development. The new authorities include the agencies for regional administration (AVIs) and the centres for business, traffic and environment (ELYs). The new structure is clearer and expected to facilitate the focusing of resources on regionally approved priorities.

At the same time, the region of Kainuu has been piloting a self-governance experiment since 2003 in order to gain experience of the effects of self-governance on the development of the region, the delivery of basic services, the participation of citizens, and the relations between the different administrative levels. The future of the self-governance initiative is currently under review on the basis of the final report that was published in 2010. According to the conclusions of the final report, the initiative has been reasonably successful in terms of delivering services. However, from a regional development perspective (e.g. in terms of providing better conditions for businesses, more jobs and slowing down out-migration), the results have not been as positive, although improvements have taken place. Nonetheless, the monitoring group of the Kainuu self-governance initiative submitted a proposal to the Minister in May 2010 to continue with the initiative. The group suggested that other regions should be given an opportunity to adopt a similar governance structure.

<sup>105</sup> Vlaamse overheid (2009) *De Vlaamse Regering 2009-2014, Een daadkrachtig Vlaanderen in beslissende tijden: Voor een vernieuwende, duurzame en warme samenleving*, 15.07.2009.

## 8.4 Rescaling governance: the local agenda

The current regional policy turn towards ‘place-based’ economic development policy and the impact of the global economic crisis are driving debates on whether economic development policy is best administered at the regional level. The current focus on ‘functional’ spaces, based for instance on ‘travel-to-work areas’, labour market areas, transport corridors, trans-border regions etc, indicates a shifting perspective beyond regional structures and regional administrative boundaries, focusing on different configurations such as multi-area and local area agreements or associations, metropolitan zones, ‘city-regions’, intra-regional strategies etc. Local authority reform is also on the agenda in a range of other countries, with implications for regional policy delivery.

- The process of improving public policy delivery in France led to the 2009 Balladur report on the reform of local authorities, which aims to clarify competences between levels, limit cross-financing and enhance the status of large municipalities (*métropoles*). Territorial reorganisation, including moves towards greater inter-municipal co-ordination, is taking place at least in part to reduce overhead costs.
- In Norway, the national development agency, Innovation Norway, has been working increasingly with the municipalities to encourage them to take on low-level business-related advice and support functions. This is seen as an appropriate task for the municipal level, allowing Innovation Norway to focus on broader economic growth and innovation.
- Supporting entrepreneurship was one of the key responsibilities of the soon-to-be-abolished English Regional Development Agencies in the United Kingdom. The new UK government has argued that business support is best administered nationally, notably through the new Regional Growth Fund. However, it has included support for small business start-ups among potential tasks of the new Local Enterprise Partnerships (see Box 9).

The financial crisis has also increased the focus on the sub-regional level. In several cases, the overriding priority has been to protect essential local public services by making local government expenditure as productive as possible. Territorial reorganisation, including moves towards greater inter-municipal co-ordination, is taking place at least in part to reduce overhead costs.

## Box 9: The local agenda in England

In England, the new UK coalition government's approach to regional policy involves sweeping changes to the policy delivery framework in the pursuit of further decentralisation and as a means to make administrative savings. In the emergency budget of June 2010, the government formalised its election pledge to promote 'localism' by confirming the abolition of the Regional Development Agencies. In their place, the government has invited local businesses and councils to develop their proposals for Local Enterprise Partnerships (LEPs).

LEPs will deal with issues of planning and housing, local transport and infrastructure, employment and enterprise. In terms of governance, the aim is to have an equal representation between civic and local business leaders on their boards. Concerning size, the aim is to reflect functional economic areas that may or may not coincide with administrative boundaries. Every part of England is eligible, although there is a focus on economically vulnerable areas. Local authorities and businesses have until September 2010 to outline proposals for LEPs. To a certain extent, the LEP model follows some of the processes set in motion under the Labour Government.<sup>106</sup> A review of sub-national economic development and regeneration in 2007-08 launched a new, more multi-scale approach involving enhanced roles for local authorities, multi-area agreements for partnerships of local authorities, city regions and more funding for community development.

- In Finland, local governance reform (under the PARAS project) has focused particularly on stronger municipal and services structure, new delivery mechanisms and organisation for these services, reform of municipal funding and State co-funding, and on the division of responsibilities between municipalities and the State. The project has been implemented largely through municipal mergers, which have resulted in a reduction of the number of municipalities by nearly one hundred. As part of this, there are increasing pressures to assess the respective regional borders and their functionality.<sup>107</sup>
- The main cornerstones of ongoing administrative reforms in Luxembourg are to reduce the number of municipalities through voluntary mergers and to abolish the intermediate-tier cantons and districts. However, progress to date has been modest.<sup>108</sup>

<sup>106</sup> HMT, dberr and CLG (2007) *Review of Sub-National Economic Development and Regeneration*. HM Treasury, Department of Business, Enterprise & Regulatory Reform, Communities & Local Government HMSO, Norwich. BERR (2008) *Prosperous Places: Taking Forward the Review of Sub National Economic Development and Regeneration*, Department of Business, Enterprise & Regulatory Reform HMSO, Norwich. For a critique, see also: Puke A and Tomaney J (2008) The Government's 'Review of Sub-National Economic Development and Regeneration': Key issues, *SERC Discussion Paper* 8, Spatial Economics Research Centre.

<sup>107</sup> Ministry of Employment and the Economy (2010) '*Suomen aluekehittämisstrategia 2020*', 17 March 2010.

<sup>108</sup> 'Esch-sur-Sûre : La Fusion des communes d'Esch-sur-Sûre, Heiderscheid et Neuhausen'. <http://www.commune-eschsursure.com/index.html>

## 8.5 Rescaling governance: towards re-centralisation

The growing responsibilities of the regional and local levels in policy delivery do not mean that there has been a corresponding decrease in central government influence. The role of the centre is being redefined rather than diminished. Central government remains a significant source of funding for regional development and, thus, inevitably has a strong interest in policy delivery and accountability. With a view to promoting policy efficiency, it is also keen to enhance national-level coordination. At the same time, the crisis has emphasised the role of central governments in policy administration. In some cases, increases in the use of compensatory grants targeting specific territories are prompting recentralisation of administrative tasks.

For instance, in the United Kingdom (England), the new UK government plans to abolish the provision of global grants to Regional Development Agencies with a centrally-administered Regional Growth Fund. General processes of cost cutting in the public sector can include rationalisation of sub-national structures and increased centralisation either in the name of efficiency improvements or merely as an unavoidable shift to the 'bare essentials' in a context of constrained funding.

In Ireland, the role and functions of the public administration have been assessed with a view to cutting costs, efficiency-savings and improving effectiveness and coordination. One recommendation is to merge the regional offices of the economic development agency, the inward investment agency and the employment agency. More specifically, government anti-crisis packages have tended to be designed at central level, based on macroeconomic rather than territorial considerations (e.g. in France).<sup>109</sup> In some cases, this has contributed to a re-balancing of policy responsibilities between administrative tiers.

## 8.6 Coordination

Coordination remains a crucial issue for regional policy administration. The expansion of the regional policy agenda to incorporate a broader range of sectors, issues and objectives has provided an impetus for addressing coordination arrangements. The coordination challenge also involves integrating the inputs of a growing range of organisations from different levels of public administration and from the private sphere. Coordination arrangements between levels of government are unavoidable in a regional development context characterised by complex interactions and incentives between supra-national, national and sub-national actors.<sup>110</sup> Moreover, in a number of countries, moves to improve the coordination of limited resources and maximise synergies have been reinforced by the economic crisis.

Research on policy coordination has identified different typologies applicable to regional economic development policy. First, coordination arrangements can vary in intensity from

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<sup>109</sup> Bouzou, N. (2010) *Renforcer le rôle économique des régions*, Fondation pour l'innovation politique.

<sup>110</sup> Keating, M. (2003) 'The Invention of Regions: Political Restructuring and Territorial Government in Western Europe', in N. Brenner, B. Jessop, M. Jones and G. MacLeod (eds.) *State/Space: a Reader*, London: Blackwell, pp. 256-77.

completely independent decision-making and information exchange, to a binding commitment to strategic goals.<sup>111</sup> In terms of arenas or axes of coordination, a basic two-fold typology is prominent in the literature: vertical coordination of different tiers of public authority; and horizontal coordination of different actors and sectors under the regional policy heading at the central level or sub-national levels.<sup>112</sup> Coordination arrangements can also be categorised according to varying degrees of formality and informality, voluntary or compulsory organising principles and different combinations of conditionalities, target-setting and monitoring.<sup>113</sup> In the case of regional policy, a range of coordination mechanisms can be identified in different contexts, as described in the following sub-sections.

### *8.6.1 Programmes, targets and guidelines*

A first category of (formal) coordination involves the use of programmes, targets and guidelines. This involves sub-national authorities drawing up regional or local plans in line with national objectives, the setting of targets by national authorities to govern the use of central funding, or more general guidelines providing an indication of how central government expects funding to be used or measures implemented. Frameworks set by national government can strengthen central coordination and overview. At the same time, it is important that sufficient flexibility is built into such mechanisms to facilitate active sub-national commitment and participation.

- For instance, in Finland the new cohesion and competitiveness programme (KOKO) has merged the former regional centre programme, the regional component of the rural programme, and the local and regional implementation of the island programme. A recent review has praised the programme for promoting commitment to joint objectives by changing the relationship between the State and the local and regional administration.
- The preparation of the new National Strategy for Regional Development in Poland is another example. Part of the strategy involves the development of several strategic programmes that link sectoral and horizontal issues to regional development.
- In Luxembourg, recent years have witnessed increased high-level coordination between different ministries in the development of spatial planning documents. There is a conviction that an integrated approach to territorial development, which combines spatial and sectoral aspects, is necessary. This can be seen, for example, in the National Spatial Planning Programme, which combines a territorial dimension (e.g. the *plans directeurs régionaux*) with a sectoral dimension (*plans directeurs sectoriels*). Nevertheless, as these plans are still being finalised, it is too early to

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<sup>111</sup> Metcalfe, L. (1994) 'International Policy Co-Ordination and Public Management Reform' *International Review of Administrative Sciences*, Vol. 60, No. 2, pp. 271-290.

<sup>112</sup> Héritier, A. (2002) 'New Modes of Governance in Europe: Policy Making Without Legislating' *Political Science Series* Institute for Advanced Studies, Vienna, p. 19.

<sup>113</sup> Alexander, E.R. (1993) 'Interorganizational Coordination: Theory and Practice' *Journal of Planning Literature*, Vol. 7, No. 4, pp. 328-343.

say how their actual implementation will be coordinated. The administration of Cohesion policy national and regional operational programmes in EU12 Member States has also provided a coordination framework. In Romania, for example, a Strategic Concept of Territorial Development up to 2030 is to be completed and launched by the end of 2010. Based on Romania's contribution to the EU Green Paper on Territorial Cohesion, it addresses the country's integration in European spatial structures through the promotion of regional identity, competitiveness, territorial cohesion, and sustainable territorial development. The expected outcome is improved coherence between cohesion and competitiveness goals and support with the territorial allocation of European Funds.

### *8.6.2 Contracts and co-financing agreements*

In several Member States, there is a growing emphasis on the coordination of various funding streams through national-regional contracts or co-financing arrangements. These are used to ensure that national and regional level funding and priorities are coherent, including provisions to negotiate the integration of sectoral and regional development funding. Increasingly, funding packages for regional projects involve multiple sources of finance. Domestic co-funding is a basic condition of Cohesion policy investment, but some Member States have placed a particular emphasis on coordinating domestic and EU funds. For instance, in Denmark, Structural Funds programming has become integrated into national policy implementation, because the same statutory bodies - the regional growth fora - are in charge of recommending or deciding project support and thus effectively use European funding as one source of finance among others.

In other cases, co-funding is being used to coordinate national and regional interventions. This gives national authorities the opportunity to ensure that national priorities are appropriately reflected in the projects in receipt of support. In Germany, the GRW (regional policy) co-funds regional-level activities based on a framework plan and nationally-agreed eligibility and award criteria. This is the approach adopted in the Netherlands, where there has been discussion of the concept of 'shared responsibility' between the national, provincial and large-city levels as part of a broader triple-helix model, with the three levels of government committing regional development funding 'up-front' for the full programme period.

Co-financing is also used to achieve horizontal coordination, which is increasingly important in a context of reduced funding and growing emphasis on the territorial impact of sectoral policies. At the national level, this approach is evident in efforts to identify and coordinate those funding streams in sectoral ministries and departments that have a territorial impact. For instance, the (recently revoked) REP Public Service Agreement in the United Kingdom (England) pooled relevant funding from central departments for disbursement by RDAs. Poland is planning a 'territorialisation' process, whereby the Ministry of Regional Development, in cooperation with individual ministries and departments, will review the system for the territorial allocation of development resources. At sub-national levels, there is increasing emphasis on public authorities, particularly local authorities, coordinating funding in order to improve capacity (e.g. in Finland, under the aforementioned local governance reform).

Where significant resources are being shared, contractual mechanisms provide a binding legal basis for coordination.

- An example of this is the operation of State-region contracts in France. Overall, the state agency DATAR is in charge of ensuring a coordinated approach to implementing the contracts. The Inter-Ministerial Study and Monitoring Group (GESPER) is a coordination platform for ministries where a regular overview of progress with contract implementation is provided.
- In Poland, the new National Strategy for Regional Development envisages territorial contracts as a crucial coordination instrument. These will replace the current regional contracts (which in reality serve only as co-financing instruments for Cohesion policy interventions). They will be based on legal agreements between national government and regions.
- In Denmark, vertical coordination between the national and regional levels has increased through the establishment of partnership agreements between central government and each of the six regional growth fora. These documents contain a general political commitment to shared goals and also specific undertakings that the two sides will attempt to progress. The official purpose of the political commitments is to secure compatibility between the globalisation strategy of central government and regional strategies for economic development. However, an important - though much more low-key and mundane - implication of the vertical partnership agreements is that they create a degree of commitment to regional development activities by departments of central government other than the Ministry of Economic and Business Affairs. The partnership agreements are revised on an annual basis, and the current round of negotiations has widened the focus and increased national-regional coordination, notably between the Ministry of Employment, the Regional Employment Councils and tripartite labour market partnerships.
- In Greece, the regions and the ministries involved in the implementation of Cohesion policy programmes are now being asked to sign an Operational Programme Agreement with the Ministry of Economy, Competitiveness and Shipping. Financial resources will only be released after the signature of this agreement.

Contractual arrangements offer several benefits. They can strengthen linkages from regional and local policies to national priorities. By increasing policymaking responsibility, they may also contribute to the development of local capacities. Contracting also performs a legitimising function: it gives governments the opportunity to submit their policies to the agreement and compliance of other authorities and can spread responsibility and accountability. Contractual arrangements can help to build 'critical mass', allowing the administrative and/or political burden of major projects, complex programmes or risky interventions to be shared. More challenging aspects of contracting include high transaction costs in terms of negotiation and administration. There is also a danger that contracts are dominated by one side, often central government, with the consequence that national priority actions dominate and contracts do not differ significantly from one region to

another. This has been one of the basic criticisms of the regional contracts system in Poland.<sup>114</sup>

### ***8.6.3 Institutional coordination - horizontal and vertical***

#### ***(i) National coordination bodies***

In multi-level governance systems, central government authorities have an important steering and coordination function *vis-à-vis* the regions. Increasingly common are institutional arrangements where one department of a national government ministry or agency coordinates the activities of different central units that are involved in policies with a territorial dimension. Three recent examples are Italy, France and Finland.

- In Italy, responsibility for the coordination and supervision of the unitary regional policy has fallen to the Department for Development and Economic Cohesion (MISE-DPS) in the Ministry for Economic Development. The status of the department is likely to be strengthened, as it will now report to a new leading body for regional policy, the Ministry of Regional Affairs (a Ministry without portfolio operating within the Presidency of the Council of Ministers).
- Similarly, in 2009 DATAR, the main body in charge of coordination of territorial development policies in France, changed its affiliation when responsibilities for regional development were moved from the Ministry of Ecology, Energy, Sustainable Development and Territorial Development to the newly-created Ministry for Rural Areas and Territorial Development. It is anticipated that DATAR's move to a ministry dedicated to territorial development will strengthen its coordinating role among central government departments.
- In Finland, a new committee for regional and structural policy is an amalgamation of the regional development negotiation committee and the Structural Funds negotiation committee. The new committee is intended to: support the Ministry of Employment and the Economy in its coordination and monitoring tasks; coordinate sectoral regional development strategies and their objectives; monitor the implementation of the national regional development objectives and the sectoral regional development strategies, and the related steering of the State's regional administration; and make suggestions for the coordination and development of national regional development and Structural Funds activities.<sup>115</sup>

The role of central-level coordination bodies is prominent in several EU12 countries due in large part to the rapid expansion of the regional policy system under Cohesion policy. In many cases, coordination arrangements are still evolving against a background where sectoral ministries have proved resistant to the idea of their activities being 'coordinated' by an external committee or managing authority, as they are used to having their own

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<sup>114</sup> Ministerstwo Rozwoju Regionalnego (2009) *Zasady Zawierania i Konstrukcja Kontraktu Wojewódzkiego w Polsce od roku 2010: Żarys Koncepcji*.

<sup>115</sup> The Government of Finland (2009) '*Valtioneuvoston asetus alueiden kehittämisestä*', 1651/2009, 29 December 2009.



distinct sphere of activity. However, there is an increasing focus on coordination at the national level.

- In Slovakia, new inter-ministerial coordination committees have been created. A government council for regional policy and supervision of structural operations is now responsible for efforts to coordinate activities between ministries.
- In Poland, supplementing the coordination role played by the Ministry of Regional Development, the current reform process foresees a stronger role for the Development Policy Coordination Committee (*Komitet Koordynacyjny do Spraw Polityki Rozwoju*). This has high-level representation from the main ministries and is organised under the auspices of the Chancellery of the Prime Minister. The Committee will act as the strategic forum for governmental debates on development policy, including regional policy. Furthermore, a National Territorial Forum is planned to support strategic discussions at national level. It will initiate debates on regional policy directions and the spatial dimension of development policy between public and private partners.

(ii) *Coordination by sub-national bodies*

New bodies are also emerging to improve horizontal coordination at sub-national levels (see Case Study Box below). Finland provides an example of improved horizontal coordination through new sub-national institutional arrangements. The new regional development structure that was introduced as a result of the ALKU project is set to provide stronger coordination: closer cooperation between the ELY centres and the regional councils regarding the definition and implementation of regional development is intended to promote a new kind of development that crosses traditional sectoral and regional borders. Another example is Belgium (Flanders), where organisations have been rationalised to improve coordination and accessibility to business (see Box 10).

In many EU12 countries, Cohesion policy Monitoring and Steering Committees have introduced new coordination arrangements at sub-national level. These fora do not build on existing practice but are a direct result of the rapid Europeanisation of policymaking. For example, regional Territorial Fora are being established by regional self-governments in Poland to ensure strategic discussion of development processes in individual regions and to establish a platform for exchange of information and experience.

## Box 10: Sub-national coordination in Flanders

In *Flanders*, the main change in policy delivery is the merger of the Agency for Economy with the Flemish Enterprise Agency (VLAO) to become 'Enterprise Flanders' (*Agentschap Ondernemen*) in January 2009. The new agency is attached to the Department of Economy, Science and Innovation (EWI) of the Flemish Minister of Economy, Enterprise, Science, Innovation and External Trade. It manages the Hermes Fund with the main objective of creating a one-stop-shop for businesses and enhancing overall policy coordination. This is in line with targets set out under the Better Governance Policy (BBB, *Beter Bestuurlijk Beleid*) launched in 2006.

More recently, efforts were made to enhance coordination in the framework of 'Flanders in Action'. Lead departments were identified for the implementation of the strategic objectives and key projects together with other relevant government departments and agencies. Also, some key projects are specifically targeted at improving coordination within the Flemish administration, e.g. in the fields of support to exporting firms and FDI attraction.

(iii) *Vertical coordination arrangements*

In addition to the horizontal coordination mechanisms discussed in the previous sections, institutional arrangements have also been developed to facilitate vertical coordination. In the Netherlands, the Spatial Economic Development Directorate of the Ministry of Economic Affairs has had 'regional teams' of officials for several years. The ministry provides the secretariat for the regional peaks programmes and government staff working in 'their' respective regions each week. At the same time, the regional programme commissions bring together regional views whilst recognising national priorities (through the presence of a senior ministry official on each commission).

In some countries, national ministries or agencies have established bodies and posts to coordinate policies for the regions as a response to the crisis.

- In France, so-called *Commissaires à la reindustrialisation* have been appointed in ten regions to coordinate the policy response to the crisis and ensure it retains momentum, drawing on a modest territorial renewal fund (FNRT).
- As discussed above, in Norway the change in ownership of Innovation Norway may, over time, increase coordination in policy delivery across the 19 counties, the Ministry of Trade and Industry (the lead Ministry for Innovation Norway) and the three other Ministries that use Innovation Norway to deliver their policies - the Ministry of Local Government and Regional Development, the Ministry of Agriculture and Food, and the Ministry of Fisheries and Coastal Affairs. The four ministries and 19 counties that now own Innovation Norway have established a Coordination Forum that will meet twice a year (in May and November).

## Box 11: Coordination mechanisms in Sweden

Coordination between the different levels of administration has been high on the agenda of Swedish regional growth policy for several years. Recent developments have seen the introduction of new initiatives to facilitate sectoral coordination in particular.

*National Forum.* A national forum for regional competitiveness, entrepreneurship and employment was set up in 2007 to engage the regional political representatives in a long-term and strategic dialogue. The discussions were organised into four themes (covering the four priorities of the Swedish NSRF): innovation and renewal, competence development and supply of labour force, accessibility, and strategic cross-border cooperation. According to a recent review,<sup>116</sup> there has been exchange of experience and learning between the regional politicians and between the regions and the government, but there are also recommendations for smaller working groups and a focus on competence and labour market development, the EU Baltic Sea Strategy, culture and creativity, and regional innovation environments.<sup>117</sup>

*Regional Coordinators.* In 2008, in response to the financial crisis, the government appointed regional coordinators to report on regional conditions and identify whether intervention was required (primarily concerning education and labour market policies, including those targeted at particular sectors and industries). A group of State Secretaries is responsible for engaging with the regional coordinators.

*Sectoral coordination.* The new Regional Growth policy has fostered improved sectoral coordination. The growth focus has attracted interest from the ministries of education and labour, among others. The government has tasked national agencies to develop a long-term strategy to provide a basis for working on regional growth questions.<sup>118</sup> It has also tasked regional authorities with establishing regional competence platforms during 2010 for better cooperation in the field of skills and education. The aim of the platforms is to increase knowledge, coordinate needs analyses, promote cooperation on competence development and training, and increase knowledge on the supply and demand of training.<sup>119</sup>

- In Belgium, efforts to enhance coordination between the federal and regional levels regarding their responses to the crisis involved a new 'forward-looking' approach, termed BE 2020 (consciously linked to the EU2020 strategy). A coordination committee established an agenda in March 2010, setting out five interrelated priorities: (i) competitiveness and industrial policy; (ii) innovation and digital society; (iii) climate, energy and mobility; (iv) employment, competences and training; and (v) tackling poverty and promoting social cohesion.

<sup>116</sup> Näringsdepartementet (2009) 'Arbetsprogram för Nationellt forum för regional konkurrenskraft, entreprenörskap och sysselsättning 2009 - 2013', 11 April 2009.

<sup>117</sup> Näringsdepartementet (2009) 'Strategisk uppföljning av en nationell strategi för regional konkurrenskraft, entreprenörskap och sysselsättning 2007-2013', 2009: 69.

<sup>118</sup> Regeringens skrivelse (2010) 'Strategiskt tillväxtarbete för regional konkurrenskraft, entreprenörskap och sysselsättning', 27 May 2010, p. 30.

<sup>119</sup> Näringsdepartementet, Arbetsmarknadsdepartementet, Utbildningsdepartementet (2010) 'Arbetskraftsutbud och kompetensförsörjning', Nationellt Forum promemoria, 7 April 2010.

- In Italy, a vertical coordination forum, the State-Region Conference, continues to promote dialogue between regions and the central State on issues affecting the regions. A more thematic approach to coordination is exemplified by the management of Cohesion policy in Spain. At the end of 2009, three thematic networks were launched to discuss management and implementation issues and provide a forum for exchanging experiences covering the environment, equal opportunities and urban issues/housing. The creation of a similar R&D and innovation network was scheduled for September 2010. A mix of these types of coordination mechanism is provided by Sweden (see Box 11).

## 8.7 Efficiency and accountability

Ensuring efficiency and accountability in the administration of regional policy is regarded as increasingly important by policymakers, especially in the context of the crisis and reduced funding and the need to optimise (and make visible) policy performance. Mechanisms to measure and support policy efficiency can be divided into two basic headings: policy design and policy delivery.

### 8.7.1 Designing efficient policy delivery systems

The first heading concerns ex-ante efforts to improve efficiency when designing or reforming policy delivery systems. One of the European Commission's responses to the crisis was to allow Member States to introduce reforms to accelerate or streamline the delivery of Cohesion policy.

- For instance, in 2009 Spain introduced standardised project application forms, and procedures under the Regional Investment Grant to increase efficiency across all Spanish regions.
- In Portugal, measures to support the business environment were reformed in July 2010 through the announcement of a 'Strategy for Accelerating the Implementation of Business Projects'. One management measure allows the adaptation of projects to take account of the economic context by simplifying procedures, particularly in terms of reporting during implementation and project closure.

Similar initiatives have been introduced in national regional development policies. Two examples come from the regions of Belgium. In Flanders, an efficient and effective administration is one of the main priorities of the 'Pact 2020' initiative. This is an action plan aiming at enhanced wealth creation, inclusion and sustainability.<sup>120</sup> It implements commitments made under the 2006 strategic framework Flanders in Action, which is part of the 2009-14 government agreement. Progress is overseen by a think-tank, the Commission for Efficient and Effective Government (*Commissie Efficiënte en Effectieve Overheid*, CEEO), set up in May 2008. A multi-annual programme for a 'vigorous administration' was submitted by the Flemish administration to the government in May 2010. Important elements of the approach are learning from past experience, involving civil servants and

<sup>120</sup> VESOC (2009) *Pact 2020: Een nieuw toekomstpact voor Vlaanderen, 20 doelstellingen*.

politicians, creating synergies between levels of government, and governance issues.<sup>121</sup> In Wallonia, administrative simplification is also on the agenda, through the new 'Plan for Administrative Simplification and e-Government' that was published in February 2010.<sup>122</sup> The report lays down six priorities: simplifying and improving regulation; simplifying and harmonising procedures; expanding virtual procedures; managing administrative documents electronically; streamlining and computerising data collection and data-sharing; and improving communication with target audiences.

A further, regionally-oriented example is from Italy, where 'zero bureaucracy zones' have been announced in the South in order to support the establishment of new development initiatives. In these areas, administrative procedures for setting up new firms will be delegated to a government commissioner. If these procedures are not concluded within 30 days from the start, and no act has been passed, the application is approved by default.

In several countries, conditionalities are being built into policy delivery systems to support efficient performance. This can involve setting ex-ante conditionalities that must be met before funding is released.

- For example, in Italy, several measures to increase the efficiency of policy delivery are contained in the ERDF-funded Governance and Technical Assistance NOP Convergence. This includes a funding condition that the administrative units involved must complete an organisational plan validated by the Department for the Public Function. Incentives or sanctions can be built into policy delivery frameworks to improve efficiency. A performance reserve, totalling around €3 billion, is also operated (with a first allocation from this reserve having taken place at the end of 2009).<sup>123</sup>
- Under Cohesion policy, Poland has a reserve fund for its regional operational programmes (ROPs). It is divided into annual tranches among the five ROPs with the highest level of ERDF spending (as a percentage of the total allocated to the programme). Poland's new national regional policy framework is adopting this instrument, but there are concerns that this may lead to a focus on quick rather than strategic spending and on competition rather than cooperation among regions.

Several options to improve efficient administration are being considered in France. The government's General Revision of Public Policies (RGPP) was launched in 2007 to increase the efficiency of public administration and reduce public expenditure. As a first step, simplifications were introduced regarding deconcentrated State services, which saw mergers at the level of the regions and *départements*, as well as in the field of service

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<sup>121</sup> Vlaamse Overheid (2009) *Een slagkrachtige Overheid in Vlaanderen*, Vlaanderen in Actie, Commissie Efficiënte en Effectieve Overheid.

<sup>122</sup> Gouvernements wallon et Communauté française (2010) *Plan de simplification administrative et d'e-Gouvernement 2010-2014*, 25 février 2010.

<sup>123</sup> Gruppo tecnico centrale di accompagnamento al meccanismo degli obiettivi di servizio (2010) *Obiettivi di servizio. Verifica intermedia. Calcolo delle risorse premiali*, dati al 30 novembre 2009, Decisione del Gruppo Tecnico Centrale di accompagnamento al meccanismo degli Obiettivi di Servizio del 17 dicembre 2009.

provision. The second phase, announced in June 2010, includes continuing staff cuts in the public sector, a reduction of operating costs, and simplification of administrative procedures (notably via ICT). The introduction of incentives, rewarding good management with increased transfers, is currently being discussed, but there are concerns about the practicality of such incentives as well as the definition of 'good management'. The introduction of benchmarking procedures to compare costs and expenditures between different local authorities is also being considered.

### *8.7.2 Supporting efficiency through monitoring and evaluation*

The second heading concerns the role of ongoing monitoring and evaluation in improving the efficiency of regional instruments as they are rolled out. Monitoring and evaluation may take on increased importance in the context of the crisis. Spain's 2009 Cohesion policy Strategic Report makes the point that:<sup>124</sup>

*strong financial and budget constraints will most probably diminish the capacity to reinforce the strengths and mitigate the weaknesses of the Spanish economy. Therefore, the different policies will have to be concisely evaluated in order to achieve the most efficient allocation of resources possible, whilst taking into account their scarcity.*

In this context, it is worth noting that, in several countries, the capacity for sub-national monitoring and evaluation has increased considerably in recent years. This reflects the importance of capturing the territorial impact of socio-economic processes, and the performance of policy responses.

- In France and the United Kingdom (England), recent years have seen the establishment of regional statistical observatories in order to gather comprehensive, standardised data at different levels.
- Regional policy in Denmark involves national targets for training, entrepreneurship, innovation, and R&D. For each of these areas, the performance of every region is measured, and the Danish Enterprise & Construction Authority (DECA) is working with Statistics Denmark to devise additional indicators with regard to framework measures and the performance of firms/individuals. The standardised collection of data on regional economic performance orchestrated by DECA should allow the regional growth fora to base their policies on up-to-date analyses of regional development trends, while facilitating evaluation within and across regions with regard to both policy programmes and individual projects.
- Poland plans to establish a similar network as part of the regional policy reforms currently being introduced. Some regional labour market observatories are already operating. These are responding to processes of dynamic economic growth, the

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<sup>124</sup> MoE/MLI (2009) *National Strategic Reference Framework 2009 Strategic Report* Ministry of Economy and Finance and Ministry of Labour and Immigration, Madrid. [http://ec.europa.eu/regional\\_policy/policy/reporting/document/spain\\_strategic\\_report\\_summary\\_en.pdf?salto=/aplweb/foncomun/periodo2007/ferycohe/feder/evaluacion.jsp](http://ec.europa.eu/regional_policy/policy/reporting/document/spain_strategic_report_summary_en.pdf?salto=/aplweb/foncomun/periodo2007/ferycohe/feder/evaluacion.jsp)

inflow of foreign investments as well as EU Structural Funds and the liberalisation of access to the labour market.

- In Belgium (Flanders), there is a strong commitment to monitoring and evaluation under 'Flanders in Action'. The implementation document 'Pact 2020' will be operationalised via specific actions, milestones and indicators.
- In Portugal, the standardisation of core indicator concepts, methodologies and data collection approaches across programmes has been strengthened over the past year.

Ongoing evaluation is also used to improve the performance of policy instruments and programmes as they are rolled out. Across the EU12 Member States, expanding evaluation systems are focusing on delivery issues (e.g. selection criteria, indicators etc) for the current generation of Cohesion policy programmes. In Portugal, the global grants instrument will be evaluated during 2010. On the basis of qualitative and quantitative indicators linked to project implementation capacity and delivery, the results of the evaluation will contribute to funding reallocation decisions in line with performance.

There is an increasing focus on 'impact' rather than 'process' evaluation as a means of assessing the effectiveness of interventions. Austria's regional development support instruments have recently been evaluated from this perspective. In the Netherlands, evaluation is regarded as key to policy efficiency. The impact of each component of policy is evaluated at the end of each policy phase. In this context, it is of note that industrial estates provision and the Investment Premium (BSRI) were evaluated in 2009 while Peaks in the Delta and the regional development companies (ROMs) were reviewed in 2010.

Numerous studies are underway at national and regional levels in Poland. An ex-post evaluation of the Polish National Development Plan (2004-2006) is due to be finalised in 2010. This amounts to a substantial work programme and one of the most comprehensive carried out at Member State level. It has already produced some interesting studies and conclusions (e.g. on the macroeconomic influence of Cohesion policy at national and regional level). Another evaluation has found a significant positive impact of Cohesion policy spending in Poland on the economies of EU15 Member States. In Germany, the impact of the GRW business aid instrument has been the subject of several recent studies (see Box 12).

Despite this trend towards more monitoring and evaluation, it is possible that the crisis (and associated rationalisation of government intervention and administration) will lead to some activities being reconsidered. On the one hand, it can be argued that reductions in regional policy funding place greater emphasis on monitoring and evaluating how efficiently money is invested. Equally, it is valid to contend that decreasing amounts of funding do not justify the construction of comprehensive systems of monitoring and evaluation. For instance, the successor to the sophisticated framework set up for the English RDAs (which are being abolished) in the United Kingdom is unlikely to be on the same scale.

Furthermore, in some cases the impact of the crisis and the implementation of anti-crisis measures have skewed data to such an extent that it is difficult to draw robust conclusions

and make long-term recommendations on the basis of evaluation. In Italy, evaluation plans have been drafted in each region for the evaluation of all actions implemented under the unitary regional policy, irrespective of the source of funding. However, cuts were made to the FAS fund in 2009 and the actual destination of the reallocated resources is not easy to reconstruct. In a situation of flux, it is difficult to assess the territorial impact of the cuts.

#### Box 12: Impact evaluation in Germany

A number of studies in relation to the impact of the GRW have recently been or are currently being undertaken by external experts for the Federal Ministry for Economics and Technology. In addition, a workshop has been held on GRW support for infrastructure.

One study evaluated the effect of GRW business aid, and it found the GRW to be effective in stimulating private investment. It compared businesses that received aid with similar businesses that did not receive aid (via a 'matching study') and found that the development of assisted businesses was considerably stronger in terms of employment and earnings. A call for tender has been published for a further study, which will develop methods for monitoring and evaluating GRW support for infrastructure. Other studies have assessed the indicators, thresholds and data-years that could be used in designating GRW areas after 2013, and they have also identified options for coordinating policy fields that have an impact on spatial development.

The Federal Ministry of Economics and Technology held a workshop with leading regional economists in December 2009 to consider possible enhancements to GRW support for infrastructure. The participating experts agreed that the GRW rules already allow its resources to be used to support a wide range of infrastructure investment, not only in traditional areas such as business parks and transport links, but also in infrastructure directly linked to the goal of strengthening innovation and human capital, such as non-university research institutes, innovation centres, clusters and business training.

Lastly, the extent to which public authorities can respond to evaluation recommendations is constrained by the new financial context. In Ireland, responses to evaluation recommendations have been restricted by the crisis: the public sector has already been subject to major changes and cuts, creating resistance to further upheaval. Moreover, the short-term costs involved in restructuring and institutional change could be difficult to sustain in the present economic climate. In France, an evaluation of the Regional Economic Development Schemes (SRDE) is currently underway, but it is unlikely that recommendations will be implemented due to limited capacities of local authorities.<sup>125</sup>

### 8.7.3 Anchoring accountability

Ensuring accountability and transparency in policy areas such as regional policy, where design and delivery operates through networks, partnerships and deliberative fora, can be problematic. In some cases, this challenge is being addressed by making a clear distinction

<sup>125</sup> Zapalski, E. (2010) *Faut-il renforcer le rôle économique des régions?*, [www.localtis.info](http://www.localtis.info) 20.04.2010.



between policy design and delivery tasks. In Denmark, the new institutional set-up involves a clear separation between, on the one hand, policy design (undertaken by the regional growth fora) and, on the other hand, policy delivery (undertaken by arm's-length bodies often established by groups of local authorities).

Accountability and transparency can also be strengthened by including elected authorities in the process of administration.<sup>126</sup> In the United Kingdom (England), one of the justifications for the shift from Regional Development Agencies to Local Enterprise Partnerships is that there will also be a stronger element of local accountability. The aim is to have an equal representation between civic and local business leaders on the boards of LEPs. They can be chaired by local mayors, as well as prominent business leaders.

The lines of policy accountability to the national level are important in some cases. In the Netherlands, the Ministry of Economic Affairs is responsible to the Dutch Parliament for all its spending. It is especially for accountability reasons that there is particular (and growing) emphasis on ensuring that the national budget for *Peaks in the Delta* is used to address national spatial economic development priorities.

Accountability and transparency can also be strengthened through regular policy-reporting and the construction of public databases. In Italy, the database on Territorial Public Accounts continues to be successfully implemented (*Conti Pubblici Territoriali*, CTP). Set up in 1994, but only progressively implemented, the database provides detailed information on all capital public spending disaggregated regionally. Data are elaborated through the final accounts (*bilancio consuntivo*) of the regional and local authorities, tracking down the income and expenditure effectively realised.

Cohesion policy administration also includes reporting requirements, and, in several EU12 Member States, substantial public sector reform processes include the reinforcement of reporting and financial management arrangements, the introduction of new public management systems and IT facilities, and professional training in a number of areas. Although advances in evaluation, monitoring and policy transparency are still closely linked to EU Cohesion policy programmes, spillover effects into domestic policymaking are increasingly evident (e.g. Czech Republic).

## 8.8 Summary

This review of developments in regional policy administration in Europe has focused on changes to the territorial scale at which policy is delivered and changes in how inputs into policy delivery are coordinated. These changes are taking place against a background of debate on the conceptual basis and rationale for regional policy and the economic crisis. Both these factors are influencing the structures and systems of regional policy administration, as well as its efficiency and accountability.

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<sup>126</sup> Jones, M., MacLeod, G. and Harrison, J. (2006) 'In what sense a regional world? Institutional legacies, territorial fixes, network topologies'. Paper presented at the 2006 Annual Meeting of the Association of American Geographers, Regional Studies Association Session, 'Whither Regional Studies', Chicago.

In several countries, the regional level continues to accrue responsibilities for regional policy administration, either through regional policy reforms or through broader administrative changes that include decentralisation. However, this does not mean that there has been a corresponding decrease in central government inputs. The role of the centre is being redefined rather than reduced. Central government remains a significant source of funding for regional development and, thus, inevitably has a strong interest in policy delivery and accountability. With a view to promoting policy efficiency, it is also keen to enhance national-level coordination. Furthermore, it is increasingly seen to have an important steering and coordination function *vis-à-vis* the regions. These central government tasks are prominent in the context of the crisis. As well as the impact of the global economic trends, conceptual shifts, including the current interest in 'place-based' policy, are driving debates on whether economic development policy is best administered at the regional level. The emergence of new 'functional' spaces, based for instance on travel-to-work areas, labour market areas, transport corridors, and trans-border regions, indicates a shifting perspective that transcends regional structures and regional administrative boundaries. New administrative configurations are evolving, such as multi-area and local area agreements or associations, metropolitan zones, city-regions, and intra-regional strategies.

Coordination remains a crucial issue for regional policy administration. The challenges posed by new regulations, changing levels of funding, and the restructuring of instruments are prompting the emergence of new coordination mechanisms. Processes include: the strengthening of horizontal or vertical partnership structures; new organisational arrangements to coordinate different funding streams; efforts to develop thematic or sectorally-based structures to boost the coordination of interventions; and the establishment of central guidelines, contracts and agreements. The economic crisis is sharpening long-term debates on how regional policy can be administered in the most efficient and accountable way. Conditionalities and incentives are being used to ensure that funding achieves the desired objectives. Anti-crisis measures are accelerating or simplifying the administration of some regional policy instruments.

Finally, there is an increasing use of monitoring and evaluation, particularly impact evaluation. However, in some countries at least, there is a tension between the aim of closely assessing the efficiency and accountability of reduced regional policy spending and the need to streamline policy administration, including monitoring and evaluation systems.

Table 13: Regional policy administration and recent changes, 2009-10

Austria	The federal system is unchanged: regional development support is mainly implemented at the <i>Land</i> level including through business agencies. Increasing focus on coordination of funding streams (e.g. ERDF and FP7), and on efficiency beyond the absorption of funds (through improved impact evaluation).
Belgium	Continuing push for administrative regionalisation, particularly in Flanders. Federal/regional coordination strengthened through new strategy and coordination committee. Restructuring of public administration at regional level aims to improve coordination between policy fields. Emphasis on administrative simplification in Flanders and Wallonia.
Bulgaria	Growing emphasis on decentralization and local governance of economic development. Self-governing municipalities play an important role in regional policy design and delivery and in mobilising the private sector and NGOs. Coordination through programming and work of regional development councils.
Cyprus	Strongly centralised approach. Key actor is the Planning Bureau, under Ministry of Finance, and Ministry of Interior. Role of local level prioritised in National Strategic Development Plan but progress is modest. Union of local authorities plays advisory role in Structural Funds programming. Cohesion policy monitoring and evaluation procedures have had an important demonstrative effect and are gradually informing domestically-funded actions.
Czech Republic	Centralised system for regional policy under Ministry for Regional Development. Department of Regional policy delineates eligible regions, launches project calls, appraises projects and is responsible for financial management. No specific role for regional level. Cohesion policy has had a clear impact in strategic programming, evaluation, partnership-working etc.
Denmark	Decentralisation through establishment of regional growth fora. Role of national authorities ensures that activities comply with Danish and EU regulations. Horizontal coordination boosted by integration of Cohesion policy and domestic funding in the fora. Vertical coordination through active role of local authorities in regional policy and partnership agreements between central government and the fora. Accountability based on separation of policy design and delivery.
Estonia	Centralised approach. The Minister for Regional Affairs within the Ministry of the Interior coordinates regional policy. Sectoral ministries required to inform of regional impacts of their activities. Ministry of Finance also has an influential role. Over-centralised implementation a potential barrier to coordination and integration.
Finland	Central-level responsible for legislation, strategic overview and monitoring. Recent rationalisation at sub-national level through establishment of agencies for regional administration and centres for business, traffic and environment to work with Regional Councils on implementation. PARAS project reforming service provision and funding of municipalities, mostly through municipal mergers. New committee for regional policy coordinates sectoral policies, national regional development and Structural Funds programmes.
France	Regional policy and government agency DATAR, responsible for coordination of State-region contracts, moved to dedicated Ministry of Rural Spaces and Territorial Development. On-going territorial reform debate to increase critical mass with focus on urban areas; voluntary groupings of municipalities are similarly encouraged.
Germany	No major changes over the past year. Specific policies for the new <i>Länder</i> are coordinated through broader inter-ministerial mechanisms involving federal & <i>Land</i> Ministries. National coordination is integral to the GRW framework for regional policy. GRW committees play key coordinating roles. Recent evaluations have concluded that GRW business aid is effective in stimulating private investment.
Greece	Cohesion policy management and control system reformed after October 2009 elections. Aim is to increase effectiveness and accelerate spending through simplification (including the abolition of some implementation bodies at national and sub-national levels), decentralisation and coordination (committing ministries and regions to signing agreements on programme management and involving regions more in the reporting process). Evaluation is key for improving efficiency and accountability.
Hungary	A traditional system of strong central ministries and primary units of administration at county level has produced coordination challenges, fragmentation and weak systems for sub-national representation. Decentralisation is a goal, and competences are gradually being shifted to newly established NUTS 2 regions and to micro-regions. National Spatial Development Council crucial to coordinating regional and sectoral policies.
Ireland	Central government departments and agencies play key role. NUTS 2 regional assemblies are managing authorities under cohesion policy. Recent cost-cutting reviews have recommended merging some government agencies, including their regional branches. Recent government review recommended the strengthening of evaluation for impact and accountability, though the scope for change is constrained by the economic crisis.
Italy	Strengthened commitment to regional policy at central level marked by shift in overall responsibility from Ministry of Economic Development to the Minister for Regional Affairs in the Presidency of the Council of Ministers. This is expected to strengthen the status and profile of the policy, by guaranteeing political ownership and support at the highest level. Coordination through domestic and Cohesion policy units in Department for Development and Economic Cohesion in Ministry of Economic Development and through State-Region conference. A performance reserve and other conditionalities support efficiency. Accountability supported by monitoring, evaluation and the use of a database on all public capital spending, disaggregated regionally.

Latvia	The Ministry for Regional Development and Local Government has core responsibility for regional policy. Sectoral ministries and government agencies also have key roles. Reforms in 2009 abolished the district level, and amalgamated smaller local governments, creating new local self governments and cities. The aim is to reduce complexity, strengthen sub-national levels and concentrate resources. Coordination aided through advisory National Regional Development Council with national and regional stakeholders.
Lithuania	Centralised policy delivery. Reforms of July 2010 abolished county-level administrative units, allocating functions to municipalities and central ministries. Counties remain as statistical units to support implementation. Regional Development Councils (drawn from municipalities), will be the key sub-national bodies for regional policy making.
Luxembourg	Recent high-level coordination between different Ministries in the drawing-up of spatial planning documents which combine spatial and sectoral dimensions. New law establishing an aid scheme for environmental protection and the rational use of natural resources
Malta	Under Cohesion policy, the Ministry for Gozo set up a Regional Projects Committee which provided input into the programming process, project selection and monitoring.
Netherlands	Coordination integral to <i>Peaks in the Delta</i> . Moves towards 'shared responsibility' between national level, regions and big cities, including ex-ante, integrated funding commitments for full programming period halted by elections. Regionally-oriented teams work in Ministry of Economic Affairs; regional programme Commissions integrate sub-national views. Onus on coordination and synergies strengthened by economic crisis and reduced public spending.
Norway	Administrative decentralisation under "Responsibility Reform" ( <i>Ansvarsreformen</i> ). Counties more involved in funding R&D through research fund regions and a triple-helix approach. Counties now own 49 percent of Innovation Norway. Coordination Forum established.
Poland	Roles of both the Ministry of Regional Development and regional self-governments to be strengthened under ongoing reforms that include moves to improve the identification and integration of public expenditure with a territorial dimension. Development Policy Coordination Committee to act as strategic forum. National and regional territorial fora being established to support strategic discussions. Plans to reform territorial contracts between state and regions. Conditionality, including performance reserve, to improve efficiency. Evaluation important for efficiency and accountability.
Portugal	Current Cohesion policy framework includes elements of centralisation (target setting and strategic monitoring) and decentralisation (greater funding share to regionally managed programmes and use of global grants). In 2010, moves to strengthen role of municipalities in coordination of development policy. Monitoring and evaluation systems developing.
Romania	Cohesion policy frameworks driving regional policy administration. Centralised system but regional Coordinating Committees established. Moves to decentralise administration and increase local government responsibilities but hindered by lack of capacity and limited financial resources.
Slovakia	Centralised approach. Regional policy tasks moving to Office of Government and new Ministry of Agriculture, Environment and Regional Development. Government Council for Regional Policy has coordination role, supervising activities of all relevant ministries.
Slovenia	Centralised model is maintained under Cohesion policy but ongoing regional reforms are considering: the potential territory of new regions; their functions and finances; and political aspects.
Spain	No change although decentralising reforms of regional statutes are progressing. Five main coordination mechanisms under Cohesion policy: Cohesion policy forum, Fund coordination committee, ESF forum, thematic networks and monitoring committees. Partnership-based sectoral networks have become operational to promote the exchange of experiences and skills acquisition in a range of policy domains.
Sweden	Central responsibilities in Ministry of Enterprise, Energy and Communications. Regional-level mix of government-appointed boards, associations of municipalities and limited number of self-governments. Self-government model being extended to a limited extent. New national forum to promote coordination between regional and national representatives. Focus on education and labour market, including new regional platforms for education and skills. Regional coordinators appointed to support sectoral coordination in the regions. Coordination at central level increased under new Regional Growth Strategy.
United Kingdom	Previous delivery framework, based around Regional Development Agencies, being dismantled after recent election. No detail on new approach but some recentralisation anticipated and also new focus on local level, through Local Enterprise Partnerships.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).

## 9. REGIONAL DEVELOPMENT SPENDING UNDER PRESSURE: CHANGES TO REGIONAL POLICY BUDGETS

### 9.1 Introduction

It is clear that the global economic crisis is now having a substantial impact on the regional policy budgets of a significant number of European countries. This effect is apparent in the contribution of State budgets to regional development and also in the role of sub-national bodies that are now operating in a constrained fiscal environment. This has implications for current regional policy approaches that stress the role of regional and local actors in policy design and implementation. However, in a context of economic crisis and budgetary uncertainty, it is important to emphasise the role of Cohesion policy as a source of stable, multi-annual development funding.

Given the diverse nature of regional policy across European countries, as well as the disparate character of the available budgetary and expenditure information, it is not straightforward to identify definitive comparative insights. Nevertheless, this chapter provides some perspective on how budgets are changing in individual countries (summarised in Table 14). The chapter begins by reviewing those countries experiencing budgetary cutbacks as a result of the economic crisis, followed by those where funding has remained stable or even increased. It then briefly discusses the implications of public expenditure constraints for the regional development activities carried out by sub-national bodies.

### 9.2 Cutbacks and reallocation of funds in some countries

The impact of the economic crisis is affecting public investment budgets and the capacity of public administration to invest in regional development. In several countries, national regional policies have experienced significant cuts in funding, notably in Ireland, Spain, France, Greece, the United Kingdom and Italy. Changes have also been introduced in Germany (see Box 13).

In Ireland, major reviews of policy initiatives have been undertaken in response to the crisis, leading to major cuts in expenditure. For example, funding for the National Development Plan was cut by almost 20 percent in 2009.<sup>127</sup> Policies and programmes, such as the Gateway Innovation Fund (€300 million over three years)<sup>128</sup> and a decentralisation scheme, have been suspended or slowed. Exchequer funding granted to regionally-based agencies has been cut. Exchequer funding for *Údarás na Gaeltachta* (the development agency for the Irish-speaking parts of the country) for 2009 was €30.4 million compared to

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<sup>127</sup> Irish Times (2009) 'National Development Plan', *Irish Times*, 24 April 2009. <http://www.irishtimes.com/newspaper/ireland/2009/0424/1224245296811.html>

<sup>128</sup> Funding for Gateway investments is now being made available through Structural Funds programmes.

€37.6m in 2008. According to *Údarás*, this level of funding will make it difficult for the agency to meet its employment targets over the next few years.<sup>129</sup>

The 2011 State budget in France is expected to be reduced by ten percent, which will have an impact on spending under the National Fund for Territorial Development (FNADT). For 2007-13, the allocation of the main regional policy grant (*Prime d'aménagement du territoire*, PAT) was restricted considerably to concentrate support on major strategic projects in zones experiencing economic change; the PAT funding for R&D investment is under threat due to perceived duplication.

In Spain, expenditure under the Inter-Territorial Compensation Fund (ICF), which provides funds to regional governments for public investment expenditure, has increased significantly over time, rising from around €800 million in 2000 to a peak of €1.35 billion in 2009. With the onset of the crisis in 2009, however, the budget was frozen and subsequently cut for 2010. This is a direct consequence of the pressure on public finances.

The impact of the crisis in the United Kingdom has been reflected in cuts to the budgets of English Regional Development Agencies (RDAs) over the past two years and the reallocation of regional development funding to anti-crisis measures. Further, following the UK elections of May 2010, the new government announced public spending cuts of €7.6 billion across government departments, including the main sponsor departments of regional policy. The RDAs are to be abolished and, in the meantime, are to save €330 million in the current financial year, nearly 20 per cent of their combined budget. The only explicit regional policy instrument will be the Regional Growth Fund with a budget of €1.2 billion for 2011-2013, around 65 percent of the RDA network's budget.

In Spain, expenditure under the Inter-Territorial Compensation Fund (ICF), which provides funds to regional governments for public investment expenditure, has increased significantly over time rising from around €800 million in 2000 to a peak of €1.35 billion in 2009. With the onset of the crisis in 2009, however, the budget was frozen and subsequently cut for 2010. This is a direct consequence of the pressure on public finances.

Similarly, with major deficit reduction programmes currently underway in Greece, spending on development policy is being negatively affected. Specifically, the Public Investments Plan (PIP) for 2010, which initially amounted to €10,300 billion, was reduced by €500 million as a result of the first large cuts in public expenditure, and subsequently reduced by another €500 million. Further cuts to the PIP have been mooted if the state of the public finances does not improve by the end of the year. The current level of the PIP budget now stands at 2007 levels,

Lastly, in Italy, the domestic strand of regional policy (the Fund for Underutilised Areas, FAS) has experienced a series of cuts and redeployments of resources towards anti-crisis measures. Cuts have amounted to €10,786 million out of €63,237 million for the 2007-13

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<sup>129</sup> Hennessy, N. (2010) 'Údarás struggles to hit job targets', *Irish Examiner*, January 26 2010. <http://www.irishexaminer.ie/archives/2010/0126/business/udaras-struggles-to-hit-job-targets-110582.html#ixzz0nuY8EBW6>

period, representing a reduction of around 17 percent. Some funds under the National Strategic Document (NSD) - the unitary framework for Cohesion policy and domestic regional policy - have been reallocated to three new strategic funds deemed crucial for addressing the crisis: a newly established 'Social Fund for employment and training'; an 'Infrastructure Fund' for actions aimed at boosting national infrastructure networks; and a nation-wide 'Strategic Fund' located within the Presidency of Ministers to support competitiveness and development. These three funds operate outwith the original strategy of the NSD, but they maintain the commitment in principle of the 85 percent earmarking for the *Mezzogiorno*.<sup>130</sup> Nevertheless, for several of these measures, there is a national or sectoral focus, rather than a specific regional development orientation. As a result of these cuts and reallocations, none of the national FAS programmes foreseen by the NSD has gone ahead. While the regional and interregional programmes have been maintained with marginal cuts of around 5-6 percent of the originally planned budgets, none has yet been launched, not least due to financial uncertainties.

### 9.3 Stable regional policy funding elsewhere

The deep cutbacks in regional policy budgets experienced in some countries have not been universal. In countries where regional policy instruments are attached to multi-annual programming arrangements, contracts or agreements, the associated funding is often 'ring-fenced', and the impact of the crisis has been limited.

- In Denmark, a condition of the reform process that established the regional growth fora was that the aggregate level of expenditure on regional economic development should remain broadly the same. This objective has been met, and the economic crisis has not negatively affected applications for funding or project implementation, possibly helped by the emphasis on soft infrastructure and public co-funding for European Structural Funds.
- Likewise, there has been no significant change to the regional development budget in Finland. Annual funding for the regional councils remains at around €30 million. Within this budget, €8.7 million is ring-fenced for the centre of expertise programme.

In several countries, Cohesion policy funding provides a vital source of stability over the multi-annual programme period. In fact, in some cases, the acceleration of Cohesion policy spending in response to the crisis has boosted regional development budgets, at least in the short term. For example, in Finland approximately 20 percent of EU funding has been brought forward from future programme years in response to the recession. In EU12 Member States, Cohesion policy remains a crucial and in many cases dominant source of stable, medium-term funding for regional development. However, it is worth noting that in some instances the impact of the crisis on national budgets is making the co-funding requirements of Cohesion policy increasingly onerous. In Latvia, the government has suspended a number of activities from receiving Structural Funds support as their implementation has to be pre-financed from the state budget. This has led to a

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<sup>130</sup> Art. 18, comma 1, Law Decree No. 185/2008.

prioritisation of activities that have already been launched. Similar strains are apparent at sub-national levels (see below).

Indeed, in a small number of European countries, the budget for certain regional policy instruments has risen in recent years.

- In Austria, the only federal-level measure with a budgetary allocation is the European Recovery Programme (ERP) Fund, which administers a range of different support schemes for the business sector: low-interest loans, grants and guarantees. The budget of the ERP Fund has been rising in recent years, and expenditure reached €451 million in 2008 and almost €564 million in 2009. For 2010, a number of changes have been introduced. For instance, the interest rate on loans has been cut from two percent to 1.5 percent, and the maximum aid level has been extended from €30,000 to €100,000. As a result, increasing demand was already evident in the first quarter of 2010. The *Austria Wirtschaftsservice* (AWS), which runs the ERP Fund, was in a position to grant three times as many credits for SMEs as in the same period in 2009.<sup>131</sup>
- Average annual spending on the different elements of region-specific economic policy in the Netherlands has also increased significantly compared to the projections made in 2004. While funding with respect to industrial estates, tourism and the regional development agencies has been broadly stable or declining, support for regional programmes (including ERDF co-finance) has grown markedly. As noted earlier, national programme-based funding has shifted from a strong focus on the north to an all-region orientation under 'Peaks in the Delta' (albeit with transitional provisions and extra ERDF co-financing for the north over the 2006-10 period). In addition, a further €125 million of programme-based funding has been made available for 'strong regions' for the 2007-11 period. It should be noted that earmarked funding for the north is set to increase via the compensation that has been made available for the cancellation of the fast rail link to Groningen. Most of this compensation (€1.8 billion) took the form of enhanced infrastructure spending at the regional level, but half of the remaining €300 million has been allocated to the regional economic development budget of the Ministry.
- Norway is another country where regional development budgets have increased. Between 2005 and 2010, funding for regional development grew from €126 million to €186 million (up 47 percent); all-region growth-related support increased from €35 million to €55.2 million (up 59 percent), and the narrow regional policy budget (i.e. excluding social security concession and transport aid) rose from €170 million to €251.7 million (also up 47 percent). Together with significant growth in local government funding, this reflects a stronger commitment to the districts. However, given possible constraints on future government funding due to the crisis (among other factors), there is some speculation that the spending increases of recent years may be coming to an end.

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<sup>131</sup>[http://www.ots.at/presseaussendung/OTS\\_20100426\\_OTS0092/aws-nachfrage-nach-erp-kleinkrediten-sprunghaft-gestiegen](http://www.ots.at/presseaussendung/OTS_20100426_OTS0092/aws-nachfrage-nach-erp-kleinkrediten-sprunghaft-gestiegen) (accessed 15.07.2010).



- Lastly, in Sweden, despite the recession, policy expenditure has remained stable and even increased slightly over the past year. While in 2009 the expenditure in the field of regional growth policy was SEK 3.2 billion (c.€344 million), for 2010 spending is expected to rise to SEK 3.4 billion (c.€366 million), mainly due to further investments in R&D.<sup>132</sup>

#### 9.4 The impact of the crisis on sub-national budgets

Across most Member States, the impact of the crisis on the revenues of sub-national administrative tiers is constraining their participation in regional development policy. Fiscal revenues are falling, central government transfers are declining, social expenditures are rising, and funding costs have soared. Sub-national governments have traditionally been responsible for 70 percent of public investment in OECD countries, but they are facing increased budget strains. Against this background, the pressure for regional and local authorities to meet obligations in the provision of public services and basic utilities is limiting their participation in new regional development investment and initiatives.

- In Austria, the pressure on local-level public finances due to the crisis led the Austrian Association of Cities and Towns to sign a petition in May 2010 demanding an immediate ‘municipality package’ of €1.5 billion, similar to the financial support given to the banking sector.<sup>133</sup>

The crisis has also had a strong negative effect on public investment in Bulgaria and on the budgets of municipalities, especially larger ones. Municipality funds have been reduced, limiting the local authorities to carrying out only the most urgent activities, and new investment is very limited.

In France, accelerated VAT reimbursement for local authorities was introduced in response to the crisis, and expenditure levels have remained high, amounting to 70 percent of total public investments in 2009.<sup>134</sup> However, the 2010 report of the Local Finances Observatory gives a warning of an approaching local budget crisis due to the continued decline of the self-financing capacity of local authorities since 2007. The situation of the *départements* is particularly critical, as they face soaring social expenditure in a context of population-ageing.

- The 2010 finance law in Italy foresees the possibility for regional authorities to use the 2007-13 resources of the Fund for Underutilised Areas partially to offset their National Health Service debt. Should the regional authorities decide to do so, this

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<sup>132</sup> Regeringens proposition 2009/10:100, ‘2010 års ekonomiska vårproposition, förslag till riktlinjer’, 8 April 2010.

<sup>133</sup> Austrian Association of Cities and Towns, newsletter 26.05.2010. [http://www.staedtebund.gv.at/presse/presseaussendungen/presseaussendungen-details/artikel/staedtetag-fordert-staedtepaket-als-finanzhilfe.html?tx\\_ttnews%5BbackPid%5D=370&cHash=aceec9190ff93de6d12f60eb0b5e6113](http://www.staedtebund.gv.at/presse/presseaussendungen/presseaussendungen-details/artikel/staedtetag-fordert-staedtepaket-als-finanzhilfe.html?tx_ttnews%5BbackPid%5D=370&cHash=aceec9190ff93de6d12f60eb0b5e6113)

<sup>134</sup> Observatoire des Finances Locales (2010) *Les finances des collectivités locales en 2010*, Etat des lieux.

would be at the expense of achieving the regional development aims of the National Strategic Document.<sup>135</sup>

With declining central transfers, regional and local administrations in several Member States are placing more emphasis on Cohesion policy as a source of additional funding. However, as with some State budgets, Cohesion policy's co-funding requirements are putting pressure on sub-national administrations. In Finland, for instance, the municipal co-funding share has been brought down from 20 percent to 15 percent at the programme level to reflect their worsening financial position.

Several of the above themes are highlighted by the case of Germany (see Box 13), where regional policy funding initially rose as part of a crisis-related stimulus package, but is now being cut back again to slightly below the level in the mid-2000s. More substantial reductions have been considered but so far avoided.

## 9.5 Summary

The economic crisis has had a major impact on public investment budgets and the capacity of public administration to invest in regional development. In several countries, national regional policies have experienced significant cuts in funding, notably in Ireland, Spain, France, Greece, the United Kingdom and Italy.

These deep cutbacks in regional policy budgets have not been universal. In countries where regional policy instruments are attached to multi-annual programming arrangements, contracts or agreements, the associated funding is often 'ring-fenced', and the impact of the crisis has been limited. Indeed, in a small number of European countries, the budget for certain regional policy instruments has risen in recent years.

Across most Member States, the impact of the crisis on the revenues of sub-national administrative tiers is constraining their participation in regional development policy. Fiscal revenues are falling, central government transfers are declining, social expenditures are rising, and funding costs have soared. Against this background, the pressure for regional and local authorities to meet obligations in the provision of public services and basic utilities is limiting their participation in new regional development investment and initiatives.

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<sup>135</sup> Law No. 191/2009, 23 December 2009, Art. 2, comma 90.

## Box 13: Changing regional policy budgets in Germany

*Changes in GRW budget.* Funding for the Joint Task for the Improvement of Regional Economic Structures (*Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'* or the GRW), which supports development projects in structurally weak regions, has been subject to revisions over the past two years, largely as a result of the crisis. The GRW is funded jointly by the federal and *Land* governments. Funding levels stabilised at around €600-650 million per annum in the mid-2000s, then rose in 2009-10 due to the effects of a federal fiscal stimulus that allocated an additional €180 million. In June 2010, the federal government announced that GRW funds would be cut by €23.3 million in 2011, €66.5 million in 2012 and €88.2 million in 2013. As of 2013, the annual allocation would thus be €535 million per annum. Parliament will discuss and decide on these cuts in autumn 2010. Nevertheless, the federal government is committed to maintaining a high level of funding for the GRW.<sup>136</sup> More substantial cuts to the GRW were discussed in early 2010 but were rejected for a number of reasons. First, the GRW is seen to have value as a joint federal-*Land* coordination system based on agreed rules. Second, the GRW is perceived as ensuring an ongoing focus on business investment in *Land* policies. Third, cuts were already planned in one of the other main domestic pillars of regional policy in Germany, namely the Investment Allowance (which provides tax concessions to firms investing in the new *Länder* and is due to end in 2014), and are also seen as likely in Cohesion policy (post-2013).

*Future limits on Land budgetary deficits.* Significant changes to Germany's fiscal rules were agreed in 2009 and will place strict constitutional limits on federal borrowing and will require the *Länder* to run balanced budgets with no structural borrowing (*Schuldenbremse*). The constitutional changes were agreed in the context of the Federalism Reform Commission II (*Föderalismusreform*) between federal and *Land* authorities. Under the new rules, fiscal consolidation measures must be introduced from 2011, and the cyclically adjusted budget deficit of the federal government will be restricted to a maximum of 0.35 percent of GDP by 2016. The *Länder* have longer to adjust, but they will be required to maintain cyclically adjusted budgets by 2020. Federal grants amounting to €800 million in total will be allocated to five *Länder* (Berlin, Bremen, Saarland, Sachsen-Anhalt and Schleswig-Holstein) to help them to achieve balanced budgets. The implementation of the new fiscal rules will be monitored by a stability council, made up of the Federal Minister of Finance, the Federal Minister of the Economy and the finance ministers of the *Länder*.

<sup>136</sup> Bundesministerium für Wirtschaft und Technologie (2010) *op. cit.*, p. 22.



Table 14: Changes to regional policy budgets, 2009-10

Austria	No significant federal regional policy funding. Crisis has prompted demand from municipalities for financial support. ERP loan awards to businesses have increased (€600 mn in 2010), the interest rate on its loans cut and maximum aid levels increased to €100,000. This has resulted in increasing demand, but there is an uneven territorial distribution
Belgium	In Flanders, regional aid commitments have fallen from €293mn in 2009 to €259mn in 2010, due in part to crisis but also policy review. In Wallonia, 16% decrease in public investment in 2008-2009. Forecast of increases in 2010 and acceleration for 2012 local elections. New Marshall Plan 2010-2014 has €1.6 bn with largest share for competitiveness poles (€388 mn) and human capital (€337 mn).
Bulgaria	Crisis has impacted on public investment and municipality budgets. New domestic investment very limited. Structural and Cohesion Funds play a key role.
Cyprus	Small size of Cyprus makes it difficult to differentiate between national sectoral budgets and regional policy funding. EU financial contribution is modest (€822 mn against national budget of €6.7 bn for 2007-13). Increased public investment in construction in response to crisis has rural growth focus.
Czech Republic	Cohesion policy has a major impact on national policy but regional programmes have balanced EU/domestic contributions. In response to crisis, a support programme for economically weak and structurally 'harmed' regions re-opened in 2010, with limited budget (€2 mn). Impact of crisis on local and regional government financing (5-10% drop in tax revenues). Municipalities and regions now economising across all budget areas, postponing or cancelling new investment, except those co-financed by Cohesion policy.
Denmark	Limited impact of crisis on budget, due to focus on soft infrastructure and public co-financing of EU funds. Budgets of regional growth fora projects €288 mn in 2008. Renewal Fund of €6.7 mn for local restructuring is small in comparison but is concentrated on areas with severe problems.
Estonia	EU funding is main source of regional development finance. In 2009, total budget for regional grants was €132 mn, domestic grants providing €8 mn and EU funds €124 mn. Crisis has had impact on domestic funding, including for regional development, with cuts to 2010 budget.
Finland	No major change to regional development budget. Annual funding to Regional Councils remains at around €30 mn. Under this, €8.7 mn ring-fenced for centre of expertise programme. Structural Funds spending has increased as 20% of funding brought forward to address crisis. Municipal co-funding requirement reduced from 20% to 15%, reflecting deteriorating financial position.
France	Funding for territorial development is spread across ministries. Annual budget for cross-sectoral territorial development policies is €4.9 bn. Crisis has led to 10% cut in 2010 State budget including National Fund for Territorial Development and DATAR running costs. PAT funds for R&D investment under threat due to perceived duplication. Local authority spending remains high due to accelerated VAT reimbursements to municipalities in response to crisis but situation is worsening, particularly among <i>départements</i> . Strengthening of tax-based equalisation measures on the agenda.
Germany	Regional GRW funding has fallen for the past decade but has stabilised in recent years at around €650 million per year. Decline reflects previously high levels of support for new <i>Länder</i> and fiscal constraints. Fiscal stimulus packages have increased public spend in 2009-10, including GRW by €180 mn. Extra GRW funds divided equally between <i>Länder</i> (mainstream GRW favours new <i>Länder</i> ). Prospect of GRW spending cuts in 2011. Solidarity Pact supports infrastructure in new <i>Länder</i> (€156 bn in 2005-2019). Constitutional changes agreed in 2009 require the <i>Länder</i> to maintain cyclically adjusted budgets from 2020.
Greece	Public spending on development policy is under pressure. 2010 Public Investment Plan of €10.6bn cut by €1bn with possibility of further cuts.
Hungary	Domestic funding for regional policy amounts to €363.4 mn, 13 percent of EU Cohesion policy funding. The crisis has reduced resources for challenged areas because general regional policy measures now absorb more of the available funding. Crisis has significantly increased the demand for fiscal equalisation mechanisms. Central budgetary support has been decreasing steadily over the past few years without any reduction in allocated tasks.
Ireland	No explicit regional policy. Significant decline in regionally-targeted funding linked to reduced regional aid coverage, lower Structural Funds allocations and crisis-related cuts in public expenditure: funding for National Development Plan cut by 20% in 2009, decentralised schemes suspended or slowed, funding for regional agencies also cut.
Italy	NSD reoriented towards crisis response. FAS 2007-13 (Funds for Underutilised Areas) cut by 17% (i.e. by almost €11 mn to €52 mn). Reallocation of FAS funds: national programmes abolished, regional programmes cut by on average 5-6%, new anti-crisis measures introduced. FAS measures maintain 85% earmarking for <i>Mezzogiorno</i> but some anti-crisis aspects have a sectoral rather than regional development approach. No regional FAS programmes launched yet partly due to financial uncertainty. Recent reviews question whether industrial policy and public capital expenditure has met declared objectives to concentrate on <i>Mezzogiorno</i> , prompting calls for increased focus on regional 'catching up' in the <i>Mezzogiorno</i> in broader policies.

Latvia	Crisis has reduced budget revenues and limited central government support for municipalities. Cohesion policy is vital source of funding for regions and local authorities. Need for improved access to Structural Funds through State partnership in pre-financing and streamlined payment processes.
Lithuania	EU support by far the most important source of regional development funding, crisis has had limited impact on regional policy budgets.
Luxembourg	The only explicit regional policy component is regional aid. Its importance in comparison to State aid for R&D in terms of total investment has fallen in recent years. In 2009, regional aid amounted to €66.2 mn compared to €116.1 mn for R&D.
Malta	2010 budget refers to the commitment of €25 million to the Eco-Gozo project for three years until 2012, with a €5 million allocation to launch the process in 2010.
Netherlands	Annual spending on region-specific policy has increased significantly compared to 2004 projections. Support for regional programmes (including ERDF co-finance) is growing and in 2010 is around €70 mn. Funding for industrial estates, tourism and regional development agencies stable or in slight decline (totalling €36 million in 2010). A further €125 mn available for 'strong regions' in 2007-11 period. Earmarked funds for north will increase through compensation for cancellation of rail link. Declining profile for regional aid.
Norway	Regional development budgets have been increasing. Between 2005 and 2010, funding for regional development grew from €126 mn to €186 mn (up 47 percent); all-region growth-related support increased from €35 mn to €55.2 mn (up 59 percent), and the narrow regional policy budget (i.e. excluding social security concession and transport aid) rose from €170 mn to €251.7 mn (also up 47 percent). Together with significant growth in local government funding, this reflects the government's commitment to the districts. Possibility of future constraints on funding due to crisis.
Poland	Cohesion policy provides majority of regional funding. Total ERDF allocation to Regional OPs for 2007-13 is around €2.3 billion per annum and, once account is taken of broader programmes, is almost €3.5 billion per annum. Current regional policy reforms foresee EU as main regional policy sponsor up to 2013 but with an extra €0.85 bn from domestic sectoral policies. Post-2013 plans for stronger domestic contribution, increased emphasis on regional programmes and pro-competitiveness orientation.
Portugal	Cohesion policy budget for 2007-13 (€21 bn) did not fall significantly compared to 2000-06 (€20.5 billion), though with marked variations across regions. In particular, Lisbon and the Algarve will receive only 20 percent and 25 percent respectively of their previous allocations. Wide variations in spending rates with national programmes performing better than mainland regions. Thematic concentration on human capital themes (43% of total commitments). Territorial development (29% of total commitments) focuses on accessibility and cities policy.
Romania	EU funding is dominant: €19.7 billion of Structural Funds have been allocated for 2007-13 with regional development allocated 19%. Crisis has constrained domestic funding needed for Cohesion policy. Convergence Programme amended with objectives and domestic contribution revised. Concerns about domestic co-financing and absorption, particularly in less developed-regions.
Slovakia	EU Cohesion policy funding provides the majority of financing for development activities within national and regional policies. The Slovak budget for 2010 includes a contribution from EU Cohesion policy of € 2 897 billion.
Slovenia	Most domestic regional policy tied to EU Cohesion policy. Slovenia allocated €4.1 bn under the Convergence objective for the 2007-13. Limited domestic funding for regional aid, infrastructure, business zones and areas with severe challenges. Includes region with earthquake damage (€9.2 mn for 2007-13); Roma settlements (€2.7 mn over three years); other areas with indigenous minorities (€2.3 mn in 2010).
Spain	Cohesion policy allocation for 2007-13 is €31.5 bn, a decline of more than 40%. Domestic Inter-Territorial Compensation Fund (ICF), which provides funds to regional governments for public investment expenditure, has increased significantly from €800 mn in 2000 to a peak of €1.35 bn in 2009. However, budget was frozen in 2009 and cuts introduced in 2010 with onset of crisis and public finance constraints. Regional incentives scheme not yet affected by crisis as most funding comes from ERDF. The value of Regional Investment Grant awards has been stable in recent years, totalling €244.4 mn in 2009.
Sweden	No major changes to regional policy budget over the past year. 2009 expenditure within the field of regional growth amounted to €0.34 bn, around 0.5% of the government's total budget. The sum included resources for central and regional-level activities, forms of business aid, ERDF funding. The 2010 total is expected to be €0.36 bn, with further investments in R&D.
United Kingdom	Recession and recent election has impacted severely on scale and direction of regional policy funding. RDA funding reduced to fund anti-crisis measures. Following elections in May 2010, public spending cuts of €7.6 bn announced, including the main sponsor departments of regional policy: BIS €1 bn, CLG €950 mn. RDAs (soon to be abolished) to save €330 mn in the current financial year, nearly 20 per cent of their combined budget. The only explicit regional policy instrument will be Regional Growth Fund (€1.2 bn for 2011-2013). Public expenditure also constrained in Scotland, Wales and N. Ireland.

Source: Information is for the EU27 countries and Norway and is drawn from the individual country reports which form the basis of the annual EoRPA review (see *Regional Policy and Recovery from the Economic Crisis: Annual Review of Regional Policy in Europe, 2009-10 - Country Reports*, EoRPA Paper 10/1 and 10/2).

## 10. CONCLUSIONS

This annual report on regional policy in Europe began with the observation that the environment for regional development has become increasingly difficult. In part, this is associated with the immediate effects of the economic crisis but also because of the dynamic and unpredictable nature of longer-term economic, social and environmental challenges.

Against this background, the aim of this report has been to provide an overview of the main changes to regional development policies in Europe over the period 2009-10. It has involved an assessment of how regional disparities and problems are evolving, and a review of conceptual debates on the rationale and role of regional policy. The report has also provided a comprehensive account of the changing response of regional policy - in terms of overall developments and specifically with regard to the objectives, spatial orientation, instruments, administration and budgets of regional policy. This final chapter reflects on the main themes to emerge from the report.

### 10.1 Policy context: diverse impacts of the economic crisis

The macro-economic context is characterised by a return to positive real economic growth by mid/late 2009 or early 2010 in most European countries. EU27 growth has been forecast at 1.0 percent in 2010 (revised upwards to 1.8 percent in September 2010), with most Member States showing positive but modest economic growth. However, the impact of the crisis on the real economy, coupled with the strong fiscal response in many countries, has led to an increase in government expenditure and indebtedness. The regional impact of the crisis has varied between and within countries due to the geographical distribution of sectors most strongly affected, notably exports manufacturing, construction and financial services.

The implications for policy are twofold. First, in a number of countries, there are concerns that the medium- and long-term effects of the crisis could be particularly severe in structurally weaker areas. This is partly due to the dependence of some of these regions on major employers or a limited number of sectors with relatively few alternative employment opportunities. Also, these areas are typically more dependent on public investment, public employment and welfare spending, and they are thus likely to be more strongly affected by future fiscal consolidation efforts.

Second, related to the previous point, there is already evidence of fiscal consolidation having a substantial impact on regional policy budgets (Greece, Spain, Ireland, Italy, United Kingdom). This is apparent in the funding available for central government regional policy measures, as well as the constraints on the finances of sub-national bodies that often play an important role in regional development. Even in countries where public finances have been less badly affected, there are examples of cuts in spending on regional policy instruments or a more strategic concentration of resources (France, Germany, Netherlands).

## 10.2 Policy design: emerging thinking on the future of regional policy

The overall goals of regional policy have changed little over the 2009-10 period. Recent renewals of legislation and strategies have essentially confirmed - with some modifications - the long-term focus of many regional policies on national/regional competitiveness. At the same time, almost every country maintains at least some interest in promoting economic or social equity through spatial targeting of support on weaker regions.

An interesting development is the thinking underway on regional resilience, a concept that has aroused considerable academic debate in recent years. Some researchers have argued that it should replace regional competitiveness as a goal of regional policies: instead of promoting the external competitive position of regions, policies should generate regionally distinctive forms of development through (for example) fostering local identity, the utilisation of local knowledge, and a greater role for embedded forms of economic activity, labour and resources, and support for business adaptation. A less fundamental interpretation of regional resilience is that it implies the need for policies that can cope with unexpected crises or challenges. Strategic thinking in Austria, for example, is considering whether a 'crisis culture' should inform the development of spatial policies to ensure that they integrate the potential need for response strategies.

Use of the term 'resilience' is a reaction to the increasing international economic, social and environmental pressures faced by regions. Over the past year or so, there has been a noticeable increase in longer-term thinking by regional policymakers about how to react to challenges such as climate change, sustainable development, energy security and demographic change. These policy themes have been explored largely in spatial concepts and strategies that have long timescales, as in Finland (2020), Austria, Poland, Romania (2030) and France (2040). The degree to which these concepts will be translated into specific regional policy action is as yet unclear, notwithstanding examples of a greater environmental focus in some regional policy instruments (Belgium, Luxembourg, Sweden). In this regard, innovative policy developments are taking place in Finland, whose new strategy advocates, *inter alia*, that regional development programmes should promote links between regional energy and natural resource strategies, and in France, where a new DATAR report recommends the promotion of sustainable territories and green growth.

A further question concerns the spatial scale at which policy interventions should be designed and implemented. The trend over the past two decades has been in the direction of greater regionalisation of responsibility for regional development through decentralisation and devolution. This trend continues in some countries, such as Poland, Greece and Lithuania, where proposals or reforms are seeking to strengthen the role of the regional level. An important counterpoint is the sudden decision to abolish regional strategies and development agencies in the United Kingdom (England), in favour of an approach involving recentralisation of some regional development responsibilities and an enhanced role at the local level for others. This echoes decisions made in the mid-2000s in the Netherlands, when central government sought to give a stronger direction to regional development spending in the regions.



The focus on local development and bottom-up development in the United Kingdom - which is also evident in the strengthening of the districts since 2009 in Norway - is an interesting one. Although the current reforms in England were decided by a new government, a regional review of sub-national economic development and regeneration in 2007-8 had already identified the need for a more 'multi-scale' approach, by strengthening the local authority role in economic development, encouraging collaboration across local authority boundaries and providing more neighbourhood-level support. This reflects the broader debate in regional policy across Europe on the importance of 'place' and how place-based policies should determine the spatial scale of interventions. Territories and spaces such as macro-regions, regional corridors, city-regions, localities and 'functional areas' are being used for different types of integrated regional development strategies and measures. A much more complex geography of regional development policy is emerging.

### 10.3 Policy implementation: new governance challenges

A long-term regional policy trend is a shift away from the use of regional aid. However, it does remain part of the armoury of regional policy instruments. During the economic crisis, aid schemes were often used as instant-response measures to provide emergency support, maintain liquidity, and improve the availability of business finance. In several countries, aid budgets were increased, award rates were raised, and eligibility criteria were relaxed (Belgium, Finland, France, Germany, Portugal, Spain, United Kingdom). Some of these steps are now being reversed, partly because of a fall-off in demand due to lower business investment, and also because less funding is being made available where regional policy budgets are under pressure.

In retrospect, it is notable how regional aid and other forms of business aid played a significant part in some stimulus packages. Aid instruments have the virtues that they can be established (or expanded) quickly, they facilitate the targeting of government support on particular sectors or regions, they can be administered relatively easily, and they can be evaluated more readily than some other forms of intervention. It is factors such as these that help explain the enduring value of regional aid instruments for regional policies in several countries, Germany and Norway being good examples.

Nevertheless, over the past two decades, regional policymakers in many European countries have been giving more attention to support for the business environment. Of particular note in the recent period is the emphasis being given by new regional policy measures to entrepreneurship and regional innovation (Italy, Sweden), in some cases involving the innovative use of vouchers for firms to purchase advice and training (Belgium, Ireland). Strategies involving clusters or growth/competitiveness poles are also central to several regional development policies (Finland, France, Netherlands, Sweden).

As a framework for organising regional development measures, regional programmes also continue to play an important role. Given that programmes generally involve multi-annual funding allocations, they have provided stability for regional policy objectives and budgets during the crisis in several countries. This occurred particularly where they are aligned with the EU Cohesion policy programme cycle and are used to co-fund Structural Funds interventions (notably in Poland and other EU12 countries, Greece, Portugal and Spain). One concern expressed by policymakers is the need for such programmes to combine their

strategic orientation with more flexibility to respond to unexpected events and new challenges of the kind noted above.

Finally, the combination of trends outlined in this report is putting greater pressure on the management and implementation arrangements for regional policy. The moves towards regionalising policy administration, the use of cross-sectoral strategies, and broader packages of policy instruments have required the use of more sophisticated institutional mechanisms for coordination - both vertical and horizontal - over the past 10-15 years. The more recent policymaker interest in implementing policy at different spatial scales that are not aligned with administrative boundaries presents new challenges for policy administration, as does the emerging thinking on resilience and the need for policy to respond flexibly to new demands. A further pressure is associated with demands for greater transparency and accountability in government spending. Developing forms of regional development governance that can manage policy in this changing environment will be one of the key challenges for the next few years.

## ANNEX 1: ANALYSIS OF REGIONAL DISPARITIES - DATA NOTES

EUROSTAT's harmonised methodologies (including the NUTS system of regions) are designed to allow comparisons to be made between regions in different countries. There are, nevertheless, differences in the ways that Member States have defined NUTS 2 regions, and these differences in approach may shape levels of regional dispersion as measured by coefficients of variation. For example, dispersion tends to be higher if there are more regions within a country, because it is more likely that there will be outliers. Similarly, dispersion is higher if metropolitan regions are treated as separate regions rather than integrated with a larger geographical area (e.g. Praha, Wien).

Table A9, however, draws on Member States' own data sources, i.e. the methodologies used for collecting the data have not been fully harmonised. For example, German data are at *Land* level and United Kingdom data are at NUTS 1 level, while data for other countries are at NUTS 2 level. The level of disparities is usually higher in the case of data for smaller spatial units as there is more scope for extreme values; comparisons should therefore not be drawn across countries unless the same NUTS-level regions are used.

Care should be taken in interpreting Table A9, because some countries show distinct seasonal patterns in relation to regional unemployment rates. In Austria, for example, the regional dispersion of unemployment rates generally rises in the winter as unemployment rates rise more rapidly in weaker regions, such as Burgenland, than they do in more urban regions.

One measure of regional disparities that is used in this section is the coefficient of variation, which is based on a calculation of the range of differences between the highest and lowest figures (standard deviation) but then normalises this value relative to the mean (average). It therefore allows disparities to be compared across countries, even if the absolute numbers and means are very different.



## ANNEX 2: ANALYSIS OF REGIONAL DISPARITIES - DATA TABLES

Table A1: Regional dispersion of GDP per capita, and national GDP per capita, 1995-2007

	Dispersion of regional GDP per capita (coefficient of variation)					National GDP per capita (EU27=100)				
	1995	1998	2001	2004	2007	1995	1998	2001	2004	2007
AT	0.24	0.24	0.23	0.21	0.20	134	131	125	126	123
BE	0.40	0.39	0.40	0.39	0.37	129	123	124	121	116
BG	0.14	0.19	0.23	0.29	0.41	32	27	29	34	38
CY						88	86	91	90	94
CZ	0.28	0.36	0.43	0.42	0.46	73	71	70	75	80
DK						131	132	128	125	121
EE						36	42	46	57	69
FIN	0.21	0.25	0.27	0.23	0.20	107	114	116	116	118
FR	0.18	0.18	0.19	0.18	0.18	116	115	116	110	108
DE	0.23	0.24	0.24	0.23	0.22	129	122	117	116	116
EL	0.20	0.19	0.20	0.22	0.23	84	83	86	94	93
HU	0.26	0.31	0.37	0.38	0.41	52	55	59	63	63
IE	0.29	0.31	0.35	0.33	0.36	102	121	132	142	148
IT	0.27	0.26	0.25	0.25	0.24	120	119	118	106	104
LA						31	35	39	46	56
LI						35	41	41	50	59
LX						222	217	234	252	275
ML						86	81	78	77	76
NL	0.16	0.17	0.17	0.17	0.16	123	128	133	129	132
NO						135	138	161	164	179
PL	0.16	0.20	0.23	0.22	0.24	43	48	47	51	55
PT	0.21	0.24	0.21	0.22	0.22	75	76	77	74	76
RO	0.17	0.26	0.40	0.39	0.47	31	27	28	34	42
SK	0.56	0.56	0.58	0.60	0.65	48	52	53	57	68
SI	0.24	0.23	0.25	0.26	0.27	74	78	80	86	89
ES	0.20	0.21	0.21	0.19	0.18	91	95	98	101	105
SW	0.13	0.18	0.17	0.18	0.16	125	122	121	124	123
SUI			0.34	0.36	0.37	153	149	140	135	141
UK	0.31	0.34	0.36	0.37	0.40	113	118	120	124	117

Notes: (1) Due to insufficient time-series data at NUTS 2 level, the calculations for the UK treat Scotland as a single region, and the calculations for France treat the overseas departments as a single region.

(2) Swiss data is for 2000, 2005 and 2007.

(3) The higher the figure for regional dispersion, the greater the regional disparities.

Source: EPRC calculations based on EUROSTAT data for the EU27, on data from Statistics Norway in the case of Norway and on data from BAK Basel Economics for Switzerland.  
<http://www.wirtschaftsatlas.bakbasel.com/wirtschaftsatlas.html>

Table A2: Regional dispersion of unemployment rates, and national unemployment rate, 2005-08

	Dispersion of regional unemployment rates (coefficient of variation)				National unemployment rates			
	2005	2006	2007	2008	2005	2006	2007	2008
AT	0.36	0.40	0.42	0.37	5.2	4.7	4.4	3.8
BE	0.45	0.52	0.56	0.56	8.4	8.2	7.5	7.0
BG	0.19	0.30	0.36	0.37	10.1	9.0	6.9	5.6
CY					5.3	4.5	3.9	3.7
CZ	0.49	0.49	0.46	0.48	7.9	7.1	5.3	4.4
DK			0.12	0.06	4.8	3.9	3.8	3.3
EE					7.9	5.9	4.7	5.5
FIN	0.23	0.26	0.30		8.4	7.7	6.9	6.4
FR	0.57	0.61	0.57	0.62	9.3	9.3	8.3	7.8
DE			0.42	0.42	11.1	10.2	8.6	7.5
EL	0.27	0.19	0.21		9.8	8.9	8.3	
HU	0.26	0.31	0.39	0.41	7.2	7.5	7.4	7.8
IE	0.02	0.05	0.05	0.16	4.3	4.4	4.6	6.0
IT	0.59	0.57	0.55	0.55	7.7	6.8	6.1	6.7
LA					8.9	6.8	6.0	7.5
LI					8.3	5.6	4.3	5.8
LX					4.5	4.7	4.1	5.1
ML					7.3	7.3	6.4	6.0
NL	0.21	0.19	0.23	0.19	4.7	3.9	3.2	2.8
NO	0.11	0.13			4.4	3.4	2.5	2.5
PL	0.15	0.13	0.14	0.18	17.7	13.9	9.6	7.1
PT			0.26	0.22	7.6	7.7	8.0	7.6
RO			0.29	0.31	7.2	7.3	6.4	5.8
SK	0.52	0.52	0.51	0.54	16.3	13.4	11.1	9.5
SI	0.27	0.30	0.25	0.30	6.5	6.0	4.8	4.4
ES	0.39	0.42	0.48	0.39	9.2	8.5	8.3	11.3
SWE			0.11	0.14	7.5	7.1	6.2	6.2
SUI	0.29	0.23	0.27		4.4	4.0	3.7	
UK	0.26	0.25	0.25	0.31	4.8	5.4	5.3	5.6

Notes: (1) Data for Finland exclude the Åland islands.

(2) Data are from the Labour Force Survey adjusted series.

Source: EPRC calculations based on EUROSTAT data.

Table A3: Quarterly GDP (percentage change from previous quarter), 2008-2010

	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2
AT	0.5	0.2	0.0	-0.2	-2.2	-0.5	0.5	0.4	0.5	0.5
BE	0.4	0.3	0.1	-1.7	-1.7	-0.1	0.7	0.3	0.1	0.4
BG	1.2	1.4	1.6	0.9	-7.9	0.8	0.6	0.6	-0.6	-0.5
CY	0.8	0.8	0.6	0.6	-0.6	-1.2	-0.8	-0.3	0.4	0.4
CZ	0.6	0.7	0.3	-0.9	-4.1	-0.3	0.6	0.7	0.2	0.4
DK	-1.2	0.3	-0.8	-1.9	-1.8	-1.9	0.4	0.2	-0.2	0.3
EE	-1.5	-1.7	-2.2	-4.3	-9.0	-2.3	-0.5	2.5	-0.4	0.2
FIN	-0.3	0.1	-0.3	-1.3	-5.2	-0.3	0.3	0.0	0.1	0.7
FR	0.4	-0.3	0.1	-1.1	-1.3	0.3	0.2	0.6	0.3	0.3
DE	1.5	-0.5	-0.5	-2.1	-3.5	0.4	0.7	0.0	-0.1	0.7
EL	0.9	0.9	0.4	0.3	-1.0	-0.3	-0.5	-0.8	-1.0	-0.8
HU	0.5	-0.1	-0.6	-1.2	-2.3	-1.4	-1.2	-0.4	0.5	0.7
IE	-1.0	-0.4	1.1	-7.1	-2.0	-0.7	-0.1	-2.3		
IT	0.3	-0.6	-0.7	-1.9	-2.7	-0.5	0.5	-0.3	0.4	0.4
LA	-5.0	-1.4	-0.4	-3.9	-10.7	-0.4	-4.0	-2.9	-0.1	0.3
LI	0.2	0.2	-0.3	-1.4	-13.7	-1.0	1.0	0.5		
LX	-1.0	0.3	-0.3	-4.5	-1.3	-1.6	4.8	-0.2		
ML	0.2	0.3	-0.3	-1.0	-1.0	-0.5	0.6	0.9		
NL	0.6	-0.1	-0.3	-1.0	-2.3	-1.1	0.5	0.4	0.5	0.5
PL	0.9	1.0	0.8	0.3	0.3	0.7	0.6	1.2	0.5	0.7
PT	-0.3	0.2	-0.2	-1.6	-1.9	0.6	0.5	-0.2	0.0	0.1
RO	2.1	2.0	2.0	-2.8	-4.1	-1.5	0.1	-1.5	0.5	1.2
SK	-3.4	1.9	1.8	2.1	-8.1	1.2	1.6	2.0	-0.8	0.2
SI	1.9	0.6	0.8	-4.1	-6.8	0.3	0.6	0.1	0.1	0.4
ES	0.4	0.1	-0.3	-1.0	-1.7	-1.0	-0.3	-0.1	0.0	0.1
SWE	-0.6	-0.5	-1.0	-2.4	-0.9	0.0	-0.1	-0.6	0.4	1.4
UK	0.3	0.0	-0.7	-1.6	-2.6	-0.7	-0.3	0.4	0.4	0.5
EU	0.5	-0.1	-0.3	-1.5	-2.4	-0.3	0.3	0.1	0.2	0.5

Note: All data are forecasts.

Source: European Commission (DG Economic and Financial Affairs), Economic Forecasts, Spring 2009 and Spring 2010, Brussels.

Table A4: Public sector indebtedness, 2008-10

	Net lending (+) or borrowing (-) of general government, as % of GDP			Gross public debt, as % of GDP		
	2008	2009	2010	2008	2009	2010
AT	-0.4	-3.4	-4.7	62.6	66.5	70.2
BE	-1.2	-6.0	-5.0	89.8	96.7	99.0
BG	1.8	-3.9	-2.8	14.1	14.8	17.4
CY	0.9	-6.1	-7.1	48.4	56.2	62.3
CZ	-2.7	-5.9	-5.7	30.0	35.4	39.8
DK	3.4	-2.7	-5.5	34.2	41.6	46.0
EE	-2.7	-1.7	-2.4	4.6	7.2	9.6
FIN	4.2	-2.2	-3.8	34.2	44.0	50.5
FR	-3.3	-7.5	-8.0	67.5	77.6	83.6
DE	0.0	-3.3	-5.0	66.0	73.2	78.8
EL	-7.7	-13.6	-9.3	99.2	115.1	124.9
HU	-3.8	-4.0	-4.1	72.9	78.3	78.9
IE	-7.3	-14.3	-11.7	43.9	64.0	77.3
IT	-2.7	-5.3	-5.3	106.1	115.8	118.2
LA	-4.1	-9.0	-8.6	19.5	36.1	48.5
LI	-3.3	-8.9	-8.4	15.6	29.3	38.6
LX	2.9	-0.7	-3.5	13.7	14.5	19.0
ML	-4.5	-3.8	-4.3	63.7	69.1	71.5
NL	0.7	-5.3	-6.3	58.2	60.9	66.3
NO		9.8	9.3		51.2	53.1
PL	-3.7	-7.1	-7.3	47.2	51.0	53.9
PT	-2.8	-9.4	-8.5	66.3	76.8	85.8
RO	-5.4	-8.3	-8.0	13.3	23.7	30.5
SK	-2.3	-6.8	-6.0	27.7	35.7	40.8
SI	-1.7	-5.5	-6.1	22.6	35.9	
ES	-4.1	-11.2	-9.8	39.7	53.2	64.9
SWE	2.5	-0.5	-2.1	38.3	42.3	42.6
SUI		1.2	1.7		40.4	38.2
UK	-4.9	-11.5	-12.0	52.0	68.1	79.1
EU	-2.3	-6.8	-7.2	61.6	73.6	79.6

Source: European Commission (DG Economic and Financial Affairs), Economic Forecast, Spring 2010, Brussels.



Table A5: General government expenditure as a percentage of GDP

	1997-01	2002-06	2005-08	2009	2010	2011
AT	52.9	51.1	49.2	51.8	52.5	52.2
BE	50.0	50.1	49.8	54.2	53.7	53.9
BG		39.2	38.7	40.7	39.7	39.1
CY	37.0	43.0	43.0	46.4	48.3	49.0
CZ	43.0	45.5	43.6	46.2	47.0	47.4
DK	55.2	53.5	51.7	58.5	59.2	58.1
EE	37.5	34.4	35.6	45.4	45.8	44.1
FIN	51.4	49.5	48.9	55.3	55.9	55.3
FR	52.5	53.0	52.8	55.6	56.1	55.9
DE	47.4	47.2	44.9	47.6	48.0	47.2
EL	45.1	44.3	44.5	50.5	48.4	48.4
HU	49.1	50.3	50.3	49.8	48.8	48.1
IE	34.0	33.7	36.8	48.4	47.1	46.0
IT	48.3	48.0	48.4	51.9	51.3	50.5
LA	38.0	36.0	37.0	43.0	44.8	44.4
LI	41.1	33.6	34.8	43.0	42.5	41.7
LX	39.3	41.1	38.3	42.4	43.2	42.9
ML	42.6	45.0	43.9	44.3	46.0	45.5
NL	45.9	45.9	45.4	51.6	52.3	51.7
NO	46.0	44.6	41.0	45.8	45.2	45.1
PL	43.7	43.8	43.2	44.5	46.0	46.2
PT	43.3	46.0	46.5	51.0	51.0	50.9
RO	36.8	34.1	35.6	40.4	39.9	38.8
SK	47.9	39.6	36.0	40.8	40.3	39.3
SI	46.3	45.7	44.1	49.9	50.7	49.9
ES	40.0	38.6	39.3	45.9	45.7	44.7
SWE	57.9	55.5	53.7	56.3	55.9	54.8
SUI	35.1	35.4	33.2	33.8	34.0	34.3
UK	39.2	42.9	44.9	51.7	52.6	51.3
EU	46.7	46.8	46.4	50.7	51.0	50.3

Source: European Commission (DG Economic and Financial Affairs), Economic Forecast, Spring 2010, Brussels.

Table A6: Dispersion of regional unemployment rates and national unemployment rates, by quarter, 2008-10

	Registered unemployment rates									
	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2
DE	0.38 (8.6)	0.38 (7.8)	0.37 (7.6)	0.36 (7.2)	0.36 (8.5)	0.34 (8.3)	0.32 (8.1)	0.32 (7.7)	0.33 (8.6)	0.33 (7.8)
NL	(4.2)	(3.9)	(3.7)	(3.6)	(4.4)	(4.7)	(5.0)	(5.2)	(6.0)	(5.6)
NO	0.29 (1.7)	0.31 (1.5)	0.31 (1.8)	0.25 (1.8)	0.21 (2.6)	0.18 (2.7)	0.17 (2.9)	0.17 (2.6)	0.15 (3.2)	0.16 (2.8)
SE	0.22 (2.6)	0.19 (2.2)	0.17 (2.5)	0.17 (2.9)	0.15 (3.6)	0.14 (3.8)	0.14 (4.3)	0.13 (4.2)	0.14 (4.3)	0.14 (3.7)
	Labour force survey unemployment rates									
	2008/1	2008/2	2008/3	2008/4	2009/1	2009/2	2009/3	2009/4	2010/1	2010/2
AT	0.34 (6.7)	0.24 (5.2)	0.28 (4.9)	0.23 (6.6)	0.29 (8.0)	0.19 (6.7)	0.22 (6.4)	0.21 (7.5)	0.28 (8.3)	0.21 (6.3)
FIN	0.24 (8.5)	0.23 (7.5)	0.21 (8.6)	0.24 (7.5)	0.23 (9.5)	0.20 (9.7)	0.16 (11.2)	0.16 (10.4)	0.16 (11.4)	0.15 (10.1)
FR	0.18 (7.2)	0.18 (7.2)	0.17 (7.4)	0.17 (7.7)	0.16 (8.7)	0.15 (9.1)	0.15 (9.2)	0.15 (9.5)	0.14 (9.5)	
IT	0.56 (7.1)	0.52 (6.7)	0.56 (6.1)	0.51 (7.1)	0.46 (7.9)	0.42 (7.3)	0.41 (7.3)	0.43 (8.6)	0.44 (9.1)	
PL	0.25 (11.2)	0.26 (9.8)	0.27 (9.1)	0.28 (9.1)	0.26 (10.8)	0.25 (10.7)	0.24 (10.8)	0.24 (11.5)	0.23 (12.9)	0.22 (11.9)
SUI	0.27 (3.6)	0.26 (3.4)	0.27 (3.4)	0.29 (3.7)	0.28 (4.0)	0.27 (4.2)	(4.3)	(4.6)	(4.7)	(4.4)
UK	0.20 (5.2)	0.22 (5.3)	0.23 (6.1)	0.20 (6.2)	0.18 (7.1)	0.19 (7.7)	0.16 (8.1)	0.17 (7.6)	0.17 (8.0)	0.16 (7.8)

Notes: (1) For each country, the top line shows the dispersion of regional unemployment rates, measured by a coefficient of variation; the second line (figure in brackets) shows the national unemployment rate.

(2) Data for France, Italy and the UK are quarterly figures; data for the other countries are averages of three-monthly figures.

Source: EPRC calculations based on data from national statistical offices.

Table A7: The degree of regional fragility

	Total number of NUTS 2 regions	Number of NUTS 2 regions with GDP below 75% of the EU average in PPP 2007	Number of NUTS 2 regions where the unemployment rate is above the EU average 2008	Number of NUTS 2 regions where the employment rate is below the EU average 2008	Number of NUTS 2 regions with population density below 30 per km <sup>2</sup> 2007
Austria	9	0	0	0	0
Belgium	11	0	5	9	0
Bulgaria	6	6	3	5	0
Cyprus	1	0	0	0	0
Czech Rep.	8	7	2	2	0
Denmark	5	0	0	0	0
Estonia	1	1	0	0	0
Finland	5	0	3	1	4
France	25	4	14	22	0
Germany	39	0	18	13	0
Greece	13	6	11	13	0
Hungary	7	6	4	7	0
Ireland	2	0	0	0	0
Italy	21	5	8	20	0
Latvia	1	1	1	0	0
Lithuania	1	1	0	1	0
Luxembourg	1	0	0	1	0
Malta	1	0	0	1	0
Netherlands	12	0	0	0	0
Norway	7	0	0	0	6
Poland	16	16	7	15	0
Portugal	7	4	3	1	1
Romania	8	7	2	7	0
Slovakia	4	3	2	2	0
Slovenia	2	1	0	0	0
Spain	18	1	17	12	0
Sweden	8	0	2	0	4
Switzerland	7			0	0
UK	37	0	7	4	0

Note: Data for population density in Norway are from 2006. Data for employment rate in Switzerland are 2007.

Source: EPRC calculations based on EUROSTAT data.

Table A8: Sectoral specialisation in employment at the level of NUTS 2 regions, 2008

	Industry (NACE sectors C to E)		Construction (NACE sector F)		Financial and other business services (NACE sectors J and K)		Public services (NACE sectors L to P)	
	% of national employment	Regional dispersion	% of national employment	Regional dispersion	% of national employment	Regional dispersion	% of national employment	Regional dispersion
Austria	17.9	0.26	8.1	0.13	13.2	0.27	26.8	0.11
Belgium	17.4	0.28	7.2	0.19	13.4	0.31	36.7	0.10
Bulgaria	26.5	0.16	9.0	0.25	6.4	0.60	22.9	0.11
Czech Rep.	31.3	0.27	9.2	0.07	9.7	0.58	22.7	0.09
Denmark	15.8	0.24	6.8	0.18	13.4	0.34	37.2	0.05
Finland	18.2	0.31	7.3	0.08	14.5	0.27	32.2	0.09
France	15.6	0.28	7.0	0.26	13.5	0.28	35.6	0.08
Germany	23.2	0.25	6.5	0.27	14.2	0.26	30.8	0.11
Greece	10.1	0.37	6.3	0.15	7.3	0.39	19.4	0.16
Hungary	24.2	0.25	7.9	0.11	10.4	0.51	26.3	0.13
Italy	21.3	0.39	8.4	0.17	14.0	0.18	26.8	0.16
Netherlands	12.3	0.26	5.9	0.15	15.8	0.21	33.7	0.07
Norway	13.8	0.33	7.3	0.22	13.5	0.40	39.2	0.10
Poland	23.8	0.19	6.9	0.14	8.6	0.30	22.7	0.10
Portugal	18.6	0.53	10.7	0.26	8.3	0.56	33.7	0.20
Romania	23.5	0.33	8.0	0.25	4.4	0.70	15.8	0.21
Slovakia	28.9	0.29	10.5	0.20	8.8	0.62	23.7	0.14
Spain	15.9	0.35	11.9	0.15	12.7	0.27	26.1	0.09
Sweden	15.2	0.30	6.4	0.13	16.6	0.35	37.7	0.07
Switzerland	15.7	0.26	6.7	0.19	18.0	0.22	32.5	0.14
UK	13.1	0.19	8.2	0.10	16.4	0.31	34.8	0.07
EU27	19.4		8.2		12.6		29.2	

Notes: Data for Bulgaria, Poland, Sweden, Switzerland and the EU27 are for 2007. Data exclude the overseas departments in France, as well as Ceuta y Melilla in Spain.

Source: EPRC calculations based on EUROSTAT employment (Labour Force Survey) data.

Table A9: European Commission's 'Regions 2020' Indices, regional average and regional dispersion

	Climate index		Energy index		Globalisation index		Demography index	
	Average	Dispersion	Average	Dispersion	Average	Dispersion	Average	Dispersion
AT	25	0.20	45	0.04	36	0.28	30	0.25
BE	24	0.22	48	0.05	39	0.40	35	0.21
BG	63	0.14	61	0.12	82	0.27	61	0.36
CY	59		63		48		19	
CZ	28	0.10	53	0.07	55	0.21	37	0.04
DK	28	0.07	6	0.00	24	0.00	34	0.00
EE	24		55		36		42	
FIN	17	1.23	39	0.08	27	0.57	52	0.25
FR	30	0.26	15	0.13	51	0.27	43	0.21
DE	24	0.21	46	0.03	47	0.27	43	0.37
EL	73	0.17	50	0.05	73	0.11	31	0.35
HU	41	0.09	39	0.03	66	0.22	39	0.16
IE	17	0.08	61	0.00	28	0.75	23	0.41
IT	42	0.18	50	0.05	74	0.13	44	0.22
LV	25		32		62		42	
LT	21		27		52		32	
LU	22		100		30		20	
MT	52		56		80		31	
NL	47	0.40	30	0.06	42	0.19	32	0.36
PL	31	0.14	55	0.04	49	0.14	30	0.48
PT	60	0.39	43	0.10	88	0.08	31	0.42
RO	42	0.25	42	0.06	80	0.25	29	0.36
SK	29	0.10	52	0.07	49	0.32	16	0.31
SI	25	0.02	38	0.08	40	0.00	29	0.00
ES	56	0.37	44	0.07	63	0.20	32	0.45
SWE	25	0.12	6	0.49	16	0.28	48	0.22
UK	26	0.29	27	0.09	29	0.50	36	0.27

Notes: (1) 'Average' for Member States with more than one NUTS 2 region is the average of all regional values; 'average' for small Member States is the national figure. Dispersion is measured by a coefficient of variation.

(2) A higher figure indicates greater vulnerability to potential future changes that are projected to occur by 2020.

Source: EPRC calculations based on European Commission (2008) *Regions 2020: An assessment of future challenges for EU regions*, Brussels.