



# Review, Revision, Reform: Recent Regional Policy Developments in the EU and Norway

## EoRPA Paper 07/1

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## Preface

This paper aims to provide a comparative review and assessment of recent regional policy developments in the countries of the EU and Norway, concentrating particularly on the period since the start of 2006. The paper has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU Cohesion and Competition policies. EoRPA members currently comprise the following partners:

### Austria

- Bundeskanzleramt (Federal Chancellery), Vienna

### Finland

- Sisäasiainministeriö (Ministry of the Interior), Helsinki

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

### Germany

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

### Italy

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

### Netherlands

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

### Norway

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

### Poland

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

### Sweden

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

### United Kingdom

- Department for Business, Enterprise and Regulatory Reform, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

The research for this paper was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2007.

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- Maria-Amalia Vergoula (Greece)
- Laura Polverari (Italy)
- Heidi Vironen (Finland, Sweden)
- Professor Douglas Yuill (The Netherlands, Norway)

More detailed information on regional policy changes in the countries listed above can be found in the EoRPA Papers 07/2. At present, the country reviews focus on the EU15 plus Poland and Norway, with the remaining EU12 countries being combined together in a single review. The focus on the EU15, Poland and Norway reflects the historical coverage of EoRPA prior to enlargement and the fact that both Poland and Norway are members of the Consortium. The hope is, resources permitting, to increase the EU12 dimension to the overview in future.

Many thanks are due to everyone who participated in the research. The European Policies Research Centre also gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

#### Disclaimer

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

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## 1. INTRODUCTION

The current policy phase has been a very intense period of regional policy review. Part of this is attributable to developments at the EU level. The introduction of the new 2007-13 programming period under EU Cohesion policy has required Member States to develop National Strategic Reference Frameworks (NSRFs) and associated operational programmes, while the new regional aid guidelines for 2007-13 have led to the submission and approval of new regional aid maps and related regional aid regimes. In a number of important respects, the new EU frameworks have altered the parameters within which regional policy operates within the Member States. There have, for instance, been some marked shifts in funding flows between and within countries. Thus, for example, Cohesion policy funding for *Poland* has increased from less than €2.6 billion per annum over the 2004-06 period to over €9.5 billion per annum for 2007-13. In contrast, in *Spain* the new programming period will see a reduction of more than two-fifths in Cohesion policy funding (to less than €4.5 billion per annum) while, in *Ireland*, funding of over €3.9 billion over the 2000-06 period has been cut to just over €900 million for 2007-13. Such changes clearly impact on the operation of regional policy in the countries concerned and, not least, on the relationship of EU to domestic regional policy.

But it is not only changes in EU funding flows which have an impact. There have also been some important shifts in the objectives and priorities of EU policy. The stress on the Lisbon objectives, with specific earmarked targets in the EU15 Member States, has increased the emphasis placed on the growth and competitiveness agenda and the focus on innovation. In similar vein, the elimination of micro-zoning has removed restrictions on the targeting of funding flows, encouraging Cohesion policy funding to focus more on regional strengths (including within urban areas). Changes at the EU level have also impacted on policy delivery. In some countries, especially in the larger new Member States, more funding and improved capacity at the regional level have encouraged a more regionalised approach; in others, the reductions in EU funding have led to a fall in the number of programmes and, in some cases, to more centralised administration. This has been further encouraged by an enhanced stress on accountability and control. More generally, the development of NSRFs has increased the focus on policy coordination, not only between the centre and the regions but also across national ministries and agencies.

For their part, the new regional aid maps have led to more concentrated aid areas in the EU15 in terms of population coverage. On the other hand, the need to utilise the available population quota to the maximum has seen more stress placed on areas where regional aid can potentially have an impact, leading to much more of a patchwork quilt approach in a number of Member States. At the same time, the need to resubmit aid schemes for approval for 2007-13 has caused aid regimes to be subject to review and reconsideration.

Alongside these EU framework-related developments, there have been a number of domestic drivers of policy change. One of these has been the broad competitiveness agenda, aiming to ensure that countries and their regions (including capital city regions) can compete effectively with other locations in a globalised marketplace. From a regional development perspective, this has seen a growing focus on the creation of internationally-

competitive growth poles and centres of expertise. Related, policy in a number of countries has become increasingly concerned with broader spatial development issues. The aim has been to develop and support an urban hierarchy, with development poles selected to help stimulate regional growth while ensuring that rural areas remain connected to growth impulses. Another domestic driver of change has arisen out of regional reform processes, linked to the desire to improve the allocation of responsibilities between central and regional levels and to adjust regional boundaries in line with regional responsibilities. This has been a particular feature in the Nordic countries, though debates about policy roles and responsibilities at different levels have been found virtually everywhere in recent years.

Table 1 confirms the significant degree of policy change in recent years. New regional aid maps have now been approved by DG Competition virtually everywhere while regional aid schemes have been revised to reflect the new regional aid guidelines. This has resulted in new aid legislation in some countries (like *Finland*) and the reinstatement of a major social security concession in *Norway*, but most changes just involve regulatory amendments to eligibility criteria and aid maxima. With respect to broader policy reviews, the NSRF process has dominated, with some countries (e.g. *Austria, Sweden*) enhancing policy coordination and with new management systems to reflect the changed regulatory (and budgetary) environment. The new programming period has also seen national strategic documents introduced with important regional development implications – in *Ireland, Italy* and *Poland*, for instance. Poland also brought in a new Law on the Principles of Development which gives legislative weight to ongoing policy trends. In many countries, policy is continuing along growth-oriented lines laid down a number of years ago (*Denmark, Finland, France, the Netherlands, Sweden, the United Kingdom*), though in *Norway* the pendulum has swung back to more traditional regional policy concerns. There have also been some important developments relating to the regional allocation of responsibilities (e.g. in *Denmark, Sweden* and *Norway*, as well as the *United Kingdom*) while, in *Germany*, a major review of the distribution of Federal/*Land* responsibilities retained the joint Federal-*Land* approach (*Gemeinschaftsaufgabe, GA*) in recognition of the importance of policy coordination for regional policy.

The aim of this paper is to provide a comparative review and assessment of these developments, concentrating on the period since the start of 2006. The overview is based on detailed and structured reviews of developments in the EU15 Member States, Poland and Norway, combined with a more general review of the remaining EU12 countries.<sup>1</sup> As well as highlighting policy changes, drawing out key contrasts and commonalities, the paper aims to identify the key factors underpinning recent developments. It is in seven sections. The next two discuss the nature of the regional problem and how it is perceived, while Section 4 focuses on the policy response. It first reviews developments on a country-by-country basis before drawing together the main comparative themes to emerge. Section 5 then looks in more detail at the different components of policy before Section 6 considers recent administrative trends. A final section identifies concluding points and issues for discussion.

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<sup>1</sup> Yuill D (ed) *A Country-by-Country Review of Recent Regional Policy Developments in the Member States and Norway: Changes in 2006-07*, EoRPA Paper 07/2, European Policies Research Centre, University of Strathclyde, September 2007



Table 1: Recent legislative change and broader regional policy reviews (2006-07)

	Detailed incentive/policy legislation	Broader policy reviews/changes
Austria	New regional aid map approved for 2007-13. The ERP loan was re-approved in January 2007. New Article 15(a) contract defines management competences under the Structural Funds	NSRF approved, plus all but one OP. New EU strategic element (Lisbon agenda etc) and no micro-zoning may increase focus on central areas.
Belgium	New regional aid map approved for 2007-13. In both Flanders and Wallonia, new regional aid schemes are under development for 2007-13.	New strategic documents - Marshall Plan in Wallonia, Flanders in Action. These set down guidelines for a more joined up policy approach
Denmark	The 2005 Business Development Act has given the five new regions statutory responsibility for economic development through statutory partnership bodies - the regional growth fora. The fora are also now key in SF administration.	The policy framework laid down by the 2003 White Paper remains in place; it is now being fully enacted following the local government reform which took effect from 1 January 2007.
Finland	New Law and Act on Business Development Aid entered into force on 18 June 2007. Reflects the new regional aid guidelines (RAG) and developments since the previous (2001) law	New Structural Funds Law to reflect the new Structural Funds Regulations. Revised Regional Development Act from 2007; new Government Decision on regional policy due later in 2007.
France	Following an evaluation of the PAT and the need to align it with the new regional aid guidelines, new decrees were introduced on 11 May and 15 June 2007.	The reorientation of policy introduced in 2002 and confirmed in 2005 has been maintained. Focus on competitiveness (DIACT). New state-region contracts introduced from 2007.
Germany	Annual regional policy (GA) plan. The 36th plan covers 2007-10. New regional aid map and other changes to reflect the new RAG. In 2006 law passed on IZ scheme in new <i>Länder</i> 2007-09	2006 federalist reform retained the regional GA but federal GA law to be amended: multi-annual Coordination Framework will replace annual Framework Plan, perhaps from 2008.
Greece	Following the election of a new government, Development Law 3299/2004 was introduced in December 2004. This is now being updated in line with the new regional aid guidelines.	NSRF plus new OPs. New law on management, control and implementation for the 2007-13 programming period. Also (2005) laws on PPPs, rural development, regional innovation poles.
Ireland	Regional aid regime updated in line with the new regional aid guidelines.	New (domestically-funded) NDP for 2007-13 - with explicit regional development objectives.
Italy	Aid map not yet approved. 2007 Finance Law brought in: refinanced tax credits; fiscal exemptions in deprived urban areas; reduced <i>Mezzogiorno</i> labour costs; IIP implementation	New 2007-13 NSD and OPs. New "unitary regional policy, which brings together EU and domestic funding within a common framework. EFPD for 2008-11 - environmental sustainability
Luxembourg	New regional aid legislation is still under development in line with the 2007-13 RAG.	None.
Netherlands	New regional aid map approved. Initially no central budget for the Investment Premium, but new budget line reflects the perceived need for support to counter aid in neighbouring countries	IBO review plus <i>Peaks in the Delta</i> (July 2004). Focus on promoting regional strengths of national importance. Implementation since progressed: <i>Peaks</i> programmes, 2007 tenders.
Portugal	Further changes to the SIME and SIPIE in 2006 and 2007. Introduction of the SIME-Innovation and SIME internationalisation. New aid map.	Focus on NSRF and OP development - strategic, decentralised and coordinated. New sustainable development and spatial planning strategies.
Spain	National legislation governing the Regional Investment Grant has been adapted to comply with the 2007-13 RAG - Royal Decree 175/2007 of 9 February 2007. Changes not major.	Some wider measures introduced with regional implications: competitiveness programme; innovation programme; infrastructure strategy. Focus on territorial governance issues.
Sweden	New regulations relating to the Regional Development Grant, Employment Grant and Rural Aid from 1 July 2005. Subsequent change to align with the regional aid guidelines.	Main strategic directions continue to be set by 2001 Bill. Past year dominated by NSRF and OP preparation. Regional Growth Programmes not due to be renewed until 2008.
UK	Regional aid regime aligned with new regional aid guidelines. Business Support Simplification Programme regarding broader aid provision.	Basic productivity-oriented philosophy still as in <i>A Modern Regional Policy</i> (2003) New <i>SNR</i> plus Green Paper on the <i>Governance of Britain</i> .
Poland	New Law on the Principles of Development. Together with NDP has strengthened strategic & administrative frameworks for policy design etc	New generation of national and EU strategies. Ratification of the National Development Plan 2007-15. The 2007-13 OPs nearing completion.
Norway	Revised regional aid regime in line with the new regional aid guidelines: reinstatement of social security concession; new maps and award rates.	2005 White Paper stressed innovation, regional growth, all-country perspective. 2006 White Paper is aimed at districts/peripheral areas. Review of regional system of administration.

## 2. THE NATURE OF THE REGIONAL PROBLEM

### 2.1 The current situation

Significant economic differences exist between the EU27 Member States (Figure 2.1). The per capita GDP of Luxembourg is more than 30 times that of Romania and Bulgaria. All new Member States (EU12) plus the EU15 Cohesion countries (Spain, Greece and Portugal) lie well below the EU27 average, though many new Member States are showing signs of catch-up in terms of average annual growth. Unemployment rates vary considerably, but with much less of a clear EU15/EU12 split, though the highest rates are in Poland and Slovakia and the lowest in Denmark and the Netherlands. Employment growth is also widely distributed with, in 2006, the highest rates in Estonia, Latvia, Ireland, Luxembourg, Spain and Poland and the lowest in Hungary, Portugal and Germany. Unsurprisingly, the EU12 lag behind in terms of labour productivity.

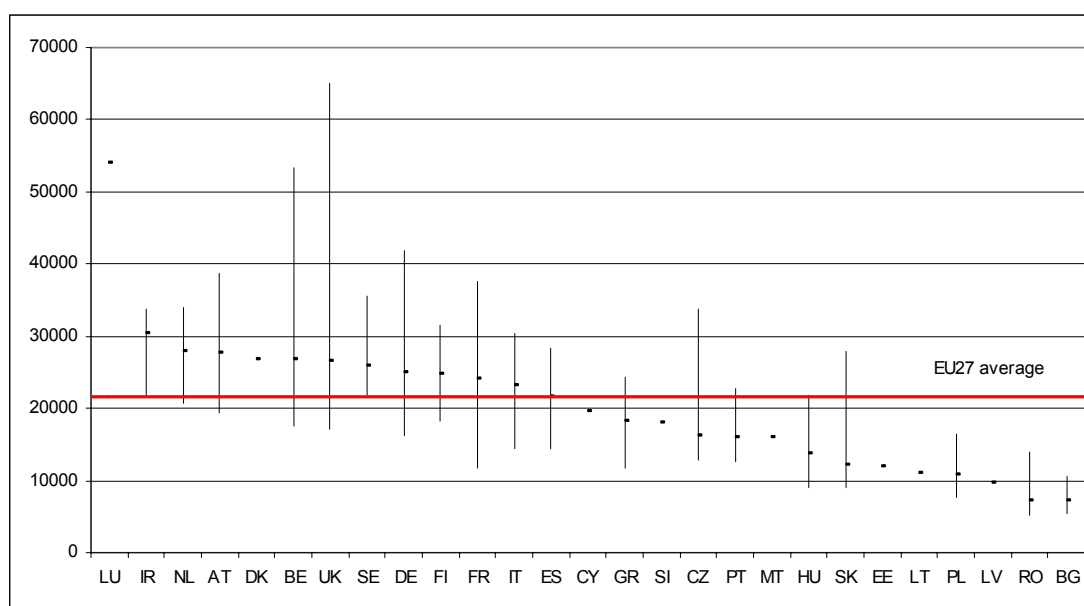
Figure 2.1: Main aggregate economic indicators

	GDP per head in PPS, 2006	Average annual growth, 1995- 2006	Unemployment rate in %, 2006	Employment growth in %, 2006	Labour productivity per hour, 2005
Luxembourg	56900	3.3	4.7	3.6	161.2
Denmark	32600	1.7	3.9	2.0	102.1
Sweden	28900	2.4	7.1	1.8	101.6
Finland	28600	3.2	7.7	1.4	94.7
Austria	28400	1.7	4.7	1.0	99.3
Germany	27400	1.3	8.4	0.7	110.1
Ireland	26200	5.2	4.4	4.3	119.7
Netherlands	26200	2.0	3.9	1.2	n.a.
Belgium	26100	1.7	8.2	1.1	126.9
France	24100	1.5	9.5	0.8	119.8
<b>EU15</b>	<b>22000</b>	<b>1.7</b>	<b>7.4</b>	<b>1.3</b>	<b>100.0</b>
United Kingdom	19600	2.3	5.3	0.8	89.9
<b>EU25</b>	<b>19400</b>	<b>1.9</b>	<b>7.9</b>	<b>1.5</b>	<b>91.4</b>
<b>EU27</b>	<b>18300</b>	<b>1.9</b>	<b>7.9</b>	<b>1.6</b>	<b>n.a.</b>
Italy	17000	1.0	6.8	1.7	90.8
Spain	15400	2.4	8.5	3.3	89.8
Cyprus	13400	1.7	4.6	1.7	69.6
Greece	12400	3.2	8.9	1.5	n.a.
Slovenia	11900	3.6	6.0	1.2	n.a.
Portugal	10600	1.7	7.7	0.7	57.5
Malta	9200	n.a.	7.3	0.9	n.a.
Czech Republic	5700	2.8	7.1	1.6	52.3
Hungary	5300	4.0	7.5	0.7	54.9
Estonia	4800	7.6	5.9	5.4	44.7
Poland	4500	4.0	13.8	3.3	44.9
Slovakia	4500	4.0	13.4	2.3	57.7
Latvia	3600	7.6	6.8	4.8	n.a.
Lithuania	2900	6.3	5.6	1.7	43.6
Bulgaria	1700	2.9	9.0	2.4	30.5
Romania	1700	n.a.	7.3	2.8	n.a.

Source: Eurostat, 2007.

Similarly, significant economic disparities can be observed between EU regions. Out of 269 NUTS II regions, 71 had a GDP per head of less than 75 percent of the EU27 average in 2004. Also, within countries, economic structures are regionally-differentiated. Figure 2.2 shows the regional spread of per capita GDP by country. It can be seen that, in the EU15, inequalities were particularly pronounced in the United Kingdom and Belgium, where economic activities are concentrated in the capital regions. In the UK, for example, the GDP per head of inner London was nearly four times that of Cornwall and the Isles of Scilly. In the EU12, the capital region of Slovakia, Bratislava, produced three times more than the poorest region, Východné Slovensko and there was a similar spread in the Czech Republic.

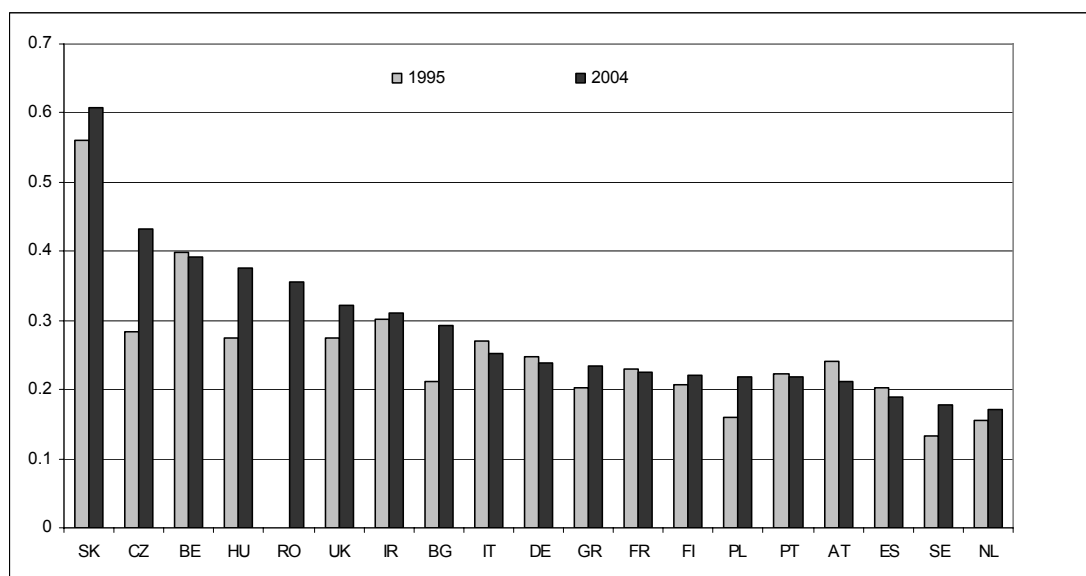
Figure 2.2: GDP per head (in PPS) in 2004 on NUTS II level



Source: Eurostat Regional Database, 2007; EPRC calculations.

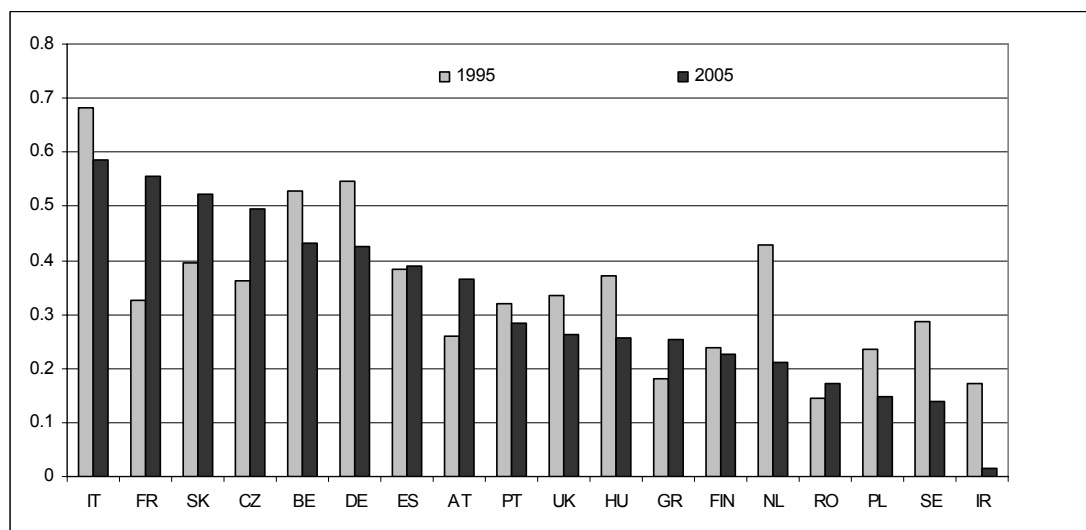
Obviously, Figure 2.2 provides only limited information with respect to the spatial distribution of GDP per head. For example, London or Brussels might simply be outliers that statistically distort the degree of inequality. A more accurate way to describe intra-state differences is to examine the coefficient of variation<sup>2</sup> of GDP per head in each country. On this measure, the highest levels of intra-state disparity in 2004 are found in the EU12 - Slovakia (especially) but also the Czech Republic, Hungary, Romania and Bulgaria (Figure 2.3). Indeed, only Poland of the EU12 countries listed lies towards the lower end of the range. Within the EU15, Belgium and the United Kingdom recorded the highest regional differences at NUTS II. At the other end of the spectrum, only limited disparities are found in the Netherlands, Sweden and Austria, as well as in Spain and Portugal. Despite their significant macro-regional problems (see Section 3) Germany and Italy fall within the mid-range of the Figure 2.3 countries.

<sup>2</sup> The coefficient of variation is defined as the standard deviation divided by the mean average.

Figure 2.3: Regional coefficient of variation of GDP per capita by country at NUTSII<sup>3</sup>

Source: Eurostat Regional Database, 2007; EPRC calculations.

Clearly, GDP per head is only one indicator of the regional problem. Figure 2.4 shows the coefficient of variation of regional unemployment rates. In contrast to GDP, unemployment disparities (in 2005) were most severe in two EU15 countries, Italy followed by France; only Slovakia and the Czech Republic from the EU12 experienced above-average disparities. Despite its very high national unemployment rate, Poland came towards the bottom end of the range, as did Romania. The lowest disparities in terms of unemployment in 2005 were in Sweden and, especially, Ireland.

Figure 2.4: Regional coefficient of variation of the unemployment rate, NUTS II<sup>4</sup>

Source: Eurostat Regional Database, 2007; EPRC calculations.

<sup>3</sup> Countries such as Denmark, Estonia and Luxembourg are single region countries at NUTS II. Hence no coefficient of variation can be calculated. For Romania no data are available for 1995.

<sup>4</sup> No data for Bulgaria.

## 2.2 Developments and trends

### 2.2.1 Theoretical concepts

A core objective of EU Cohesion policy and most domestic regional policies is to reduce economic differences between countries and regions. In order to assess policy effectiveness and draw policy conclusions, it is necessary to examine the development of inter and intra-state disparities over time. The study of economic activity in space has a long history. In 1826, von Thünen developed a basic model to analyse spatial differences in agricultural production. Weber, Christaller and Lösch further developed location theories by focussing on urban-rural relations. More recent growth theories, such as the neoclassical growth model of Solow and Swan, predict the equalisation of factor inputs over time, leading to automatic convergence processes between economies which then reach the same *steady state* growth paths.<sup>5</sup> Other scholars are more sceptical about whether economic disparities diminish automatically. For example, proponents of new economic geography use a general equilibrium model to examine centrifugal forces of production (immobile factors, land rents and pure external diseconomies) versus centripetal forces (market-size effects, thick labour markets and pure external economies).<sup>6</sup> These forces can induce a circular process that leads to economic concentration, causing a so-called *core-periphery structure*. By allowing transport costs to fall, for example due to economic integration processes such as the Single European Market, new economic geography further tries to explain how regional production might change over time. It predicts “a U-shaped relationship between integration and agglomeration”<sup>7</sup> which makes it difficult to know *a priori* what effects integration will have on the distribution of GDP.

### 2.2.2 Empirical evidence

Based on these theoretical foundations, many empirical tests have been conducted.<sup>8</sup> Generally, there seems to be broad agreement that intra-European convergence processes took place between west-European countries from the late 19<sup>th</sup> century.<sup>9</sup> Unsurprisingly, during the Second World War this process stopped. In the 1950s and 1960s, the evidence is of rather strong convergence, coupled with increases in trade. Yet, with the oil crises, this development again came to a halt in the 1970s; and between 1982 and 1986 income

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<sup>5</sup> Cf. Barro, R. and Sala-i-Martin, X. (1995) *Economic Growth*, New York: McGraw-Hill.

<sup>6</sup> Krugman, P. (1998) What's new about new economic geography? in: *Oxford review of economic policy*, Vol. 14, No. 2.

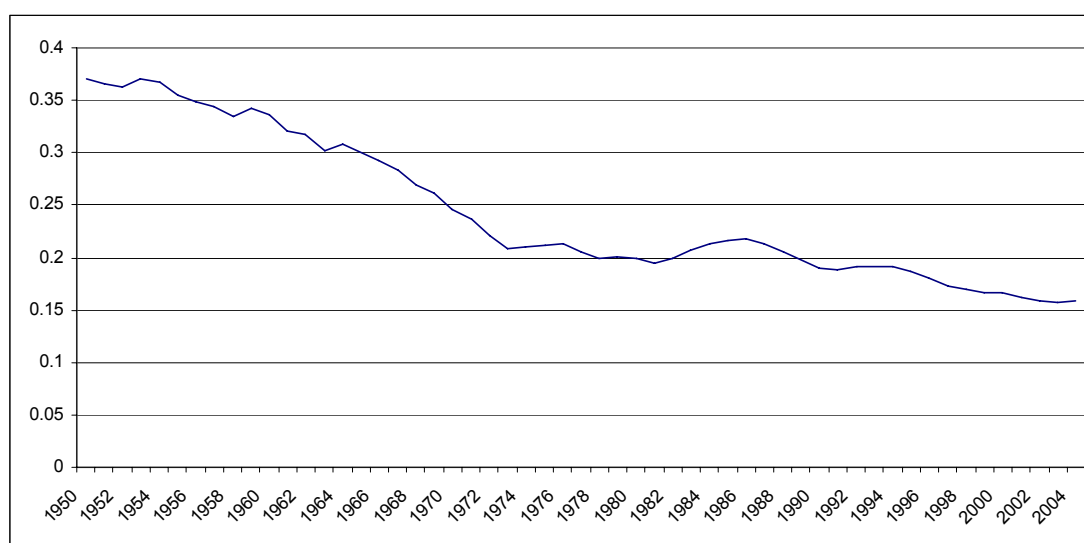
<sup>7</sup> Dunford, M. *et al.* (2001), Introduction, in: Hall, R, Smith, A., Tsoukalis, L (eds.) *Competitiveness and Cohesion in EU Policies*, Oxford: Oxford University Press, p. 19.

<sup>8</sup> See for example Dowrick, S. and Nguyen, D. (1989), OECD comparative economic growth 1950-85: Catch-up and convergence, in: *American Economic Review* 79(5), pp. 1010-1030; Barro, R. J. and Sala-i-Martin, X. (1991), Convergence across states and Regions, in: *Brookings Papers on Economic Activity* (1), pp. 107-182; Geppert, K., Happich, M. and Stephan, A. (2005) *Regional disparities in the European Union: Convergence and agglomeration*, DIW Discussion paper, Berlin; Boldrin, M. and Canova, F. (2001), Inequality and convergence in Europe's regions: reconsidering European regional policies, in: *Economic Policy*, CEPR, UK, pp. 207-253.

<sup>9</sup> For an overview see Lammers, K (2002) *Die Osterweiterung aus raumwirtschaftlicher Perspektive – Prognosen regionalökonomischer Theorien und Erfahrungen aus der bisherigen Integration in Europa*, HWWA Discussion Paper 195, Hamburg.

disparities increased (Figure 2.5). However, from the late 1980s, convergence processes regained momentum. Interestingly, the “decline and the recovery were particularly steep in the catching-up countries (Ireland, Greece, Portugal and Spain)”.<sup>10</sup> In these countries “growth [in GDP per head] was well above the EU average between 1994 and 2001”;<sup>11</sup> this indicates catch-up processes between the EU Member States. However, there is evidence that, over the last 20 years, the speed of convergence has remained below 2 percent per annum. This implies that, especially for the new Member States, catching-up to the EU average will be a lengthy process.<sup>12</sup>

Figure 2.5:  $\sigma$ -convergence between the EU Member States<sup>13</sup> (expressed in US\$ in real terms)



Source: Penn World Table, 2007

EPRC calculations based on the Penn World Table series<sup>14</sup> confirm these trends. Figure 2.5 shows *sigma*-convergence, which examines changes in the variation of GDP between the EU15. The findings seem to support the neoclassical view that economies tend to converge towards the same steady state equilibria. Within the European Economic Area, this implies that integration (i.e. widening and deepening) triggers catch-up processes to the benefit of lagging economies. In similar vein, in reviewing EU27 economic performance over the last decade, Figure 2.6 shows that lagging countries experienced generally stronger growth than those with already-high GDP per head in the base year (1995). The new Member States in

<sup>10</sup> Kaitila, V (2003) *Convergence of real GDP per capita in the EU15 area: How do the accession countries fit in?* ETLA Discussion papers, Helsinki, p. 10.

<sup>11</sup> European Commission (2004) *A new partnership for cohesion: Third report on economic and social cohesion*, Luxembourg, p. 2.

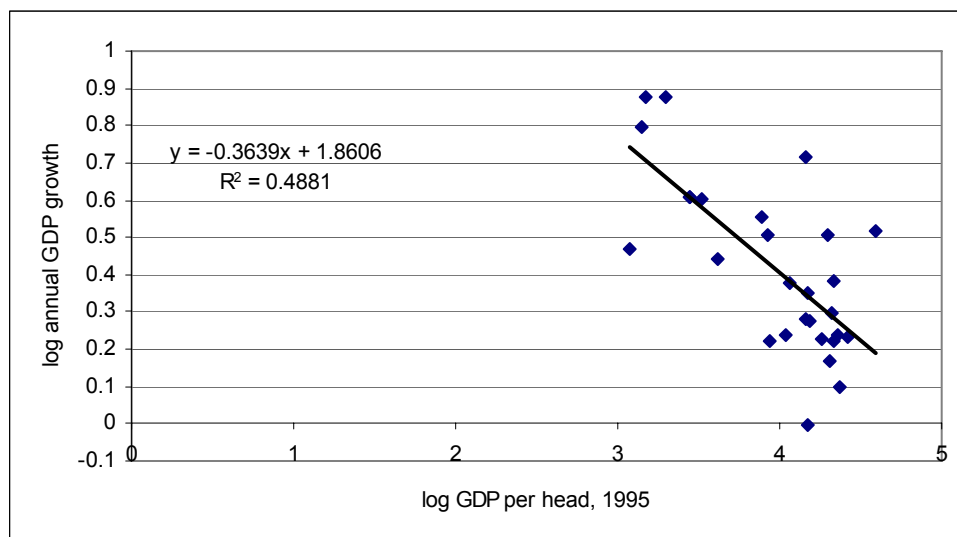
<sup>12</sup> Niebuhr, A. and Schlitte, F. (2004), *Convergence, Trade and Factor Mobility in the European Union - Implications for Enlargement and Regional Policy*, in: *Intereconomics*, May/June 2004, Hamburg.

<sup>13</sup> It should be noted that Luxembourg has been excluded as an outlier as its economic performance was significantly above the EU average and has therefore distorted the picture.

<sup>14</sup> Alan Heston, Robert Summers and Bettina Aten, *Penn World Table Version 6.2*, Center for International Comparisons of Production, Income and Prices at the University of Pennsylvania, September 2006.

particular had significantly higher growth rates. Although the economic performance of Italy and Germany was weaker than expected (reflecting the major structural problems facing these countries) and though Luxembourg and Ireland experienced higher growth than theory would predict, the results provide a broadly satisfactory explanation of convergence processes (as indicated by the slope of the regression line and the  $R^2$  value).

Figure 2.6: Initial GDP per head relative to annual GDP growth, 1995-2006<sup>15</sup>



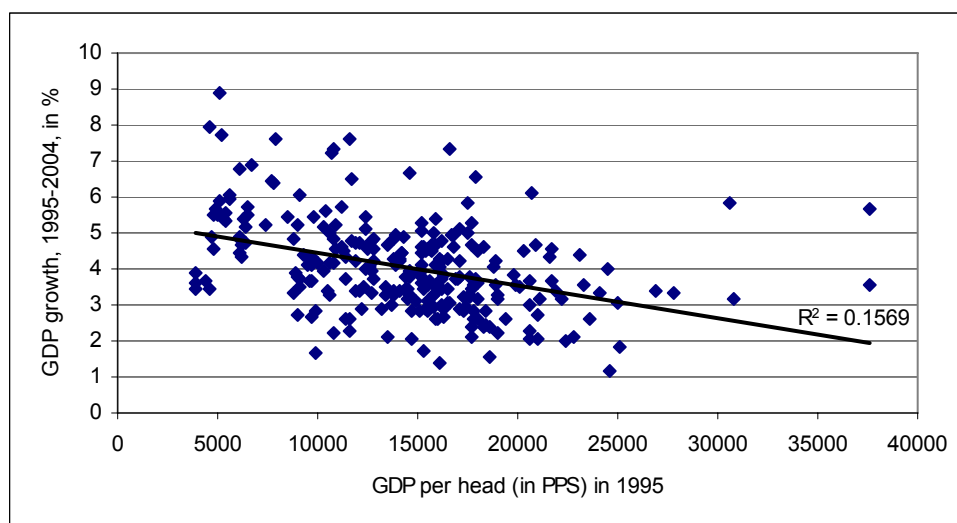
Source: Eurostat Database, 2007; EPRC calculations.

However, what about regional-level developments? Have NUTS II regions been affected by similar positive dynamics or have national catch-up processes led to increasing regional disparities? Unfortunately the answer is less clear cut, not least due to data weaknesses.<sup>16</sup> Assuming there were convergence processes between regions, it should be possible to observe a negative correlation between initial GDP per capita and growth, i.e. the lower GDP per capita in the base year, the higher the growth rate (also known as *beta*-convergence). However, no clear patterns emerge (Figure 2.7). While the slope of the regression line is in the 'right' direction (i.e. it is negative) the  $R^2$  value (indicating the proximity of all points to the line) is too weak to be meaningful. By way of example of the variations around the trend line, both inner London and Brussels had very high initial GDP per head but also experienced strong growth. Regions in Bulgaria, in contrast, had both low initial per capita GDP and very limited growth. Accordingly, it is not possible to draw any conclusions as to whether convergence processes took place at the regional level.

<sup>15</sup> Due to missing data Malta and Romania have been excluded.

<sup>16</sup> It should be noted that there are debates about the extent to which it is possible to calculate growth rates of GDP in PPS (cf. Third Report on Economic and Social Cohesion, (2004) pp. 25-26; Paas, T. and Schlitte, F. (2006), *Regional Income Inequality and Convergence Processes in the EU-25*, HWWA Discussion Paper 355, Hamburg, p.5.). The authors are aware of the shortcomings of the data and accept that trends are only indicative and need to be interpreted carefully

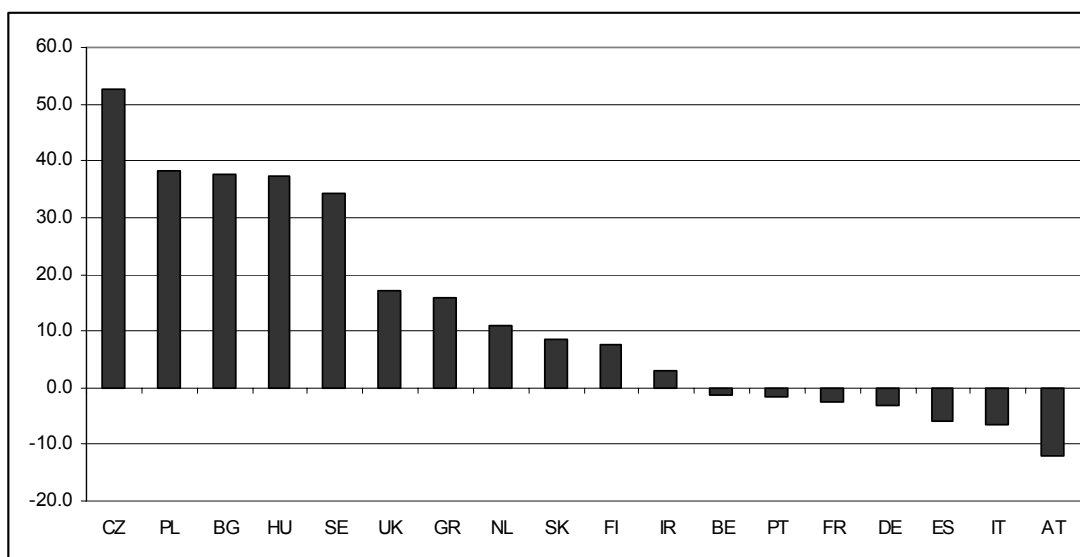
Figure 2.7: Initial GDP per head (in PPS) relative to annual GDP growth, 1995-2004



Source: Eurostat Regional Database, 2007; EPRC calculations.

Looking more closely at the dynamics within individual countries, Figure 2.8 outlines changes to the coefficients of variation of GDP per head between 1995 and 2004. Disparities increased most in new Member States (the Czech Republic, Poland, Bulgaria and Hungary) as well as in Sweden (though in Sweden and Poland from low starting levels - see Figure 2.3). No new Member State experienced any reduction in disparities (unsurprising given the strong growth impulses in capital regions). The most significant reductions in GDP per head disparities between regions were in Austria, Italy and Spain.

Figure 2.8: Percentage change of the coefficient of variation of GDP (NUTS II), 1995-2004



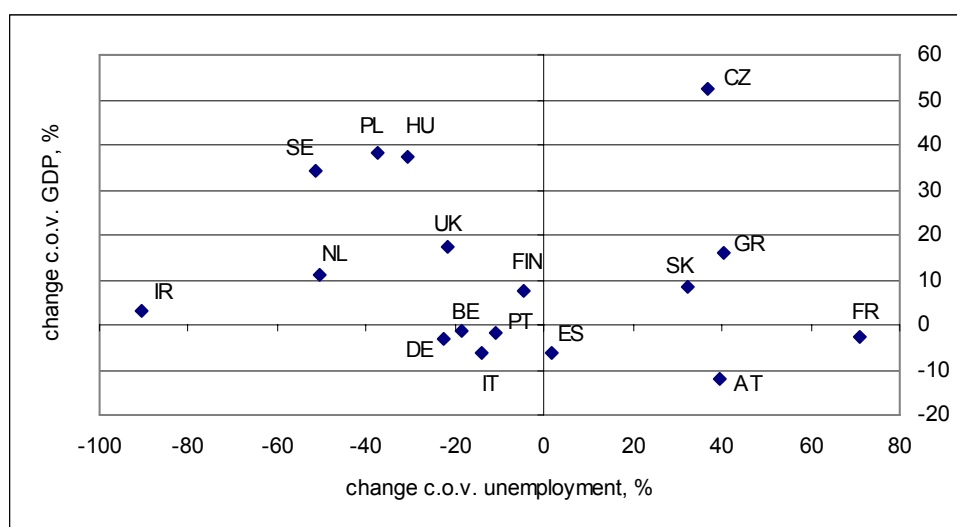
Source: Eurostat Regional Database, 2007; EPRC calculations.

When looking also at changes in regional unemployment disparities within countries, Figure 2.9 shows a somewhat different picture. A first group of countries (Ireland, Finland, Netherlands, the UK, Sweden, Hungary and Poland,) experienced rising regional GDP per



head disparities (Figure 2.8) but regional differences in their unemployment rates declined, perhaps reflecting the impact of migration. In contrast, in a second group - Austria, Spain and France - the dispersion of regional unemployment grew but GDP per head figures became more balanced. Italy, Germany, Portugal and Belgium form a third group, where both GDP per head and unemployment disparities fell - that is, the regional problem became less significant. The final group (Czech Republic, Greece, Slovakia) experienced rising internal disparities in terms of both GDP per head and unemployment, no doubt reflecting the dominance of their capital regions.

Figure 2.9: Percentage changes of the coefficients of variation for unemployment and GDP (NUTS II)



Source: Eurostat Regional Database, 2007; EPRC calculations.

## 2.3 Conclusions

The analyses reveal a number of conclusions which are largely supported by academic research. First, there are clear convergence processes between European countries. In particular, the new Member States and the EU15 Cohesion countries have experienced above average GDP growth (see Figure 2.1). Second, there is no clear evidence that convergence processes have occurred between EU regions. Some already-rich regions such as Hamburg, Brussels and inner London have developed quite dynamically whereas other more peripheral regions have witnessed only limited GDP growth. Third, in the new Member States, national catch-up processes have generally been accompanied by rising internal disparities, especially in countries like the Czech Republic, Poland, Bulgaria and Hungary. Finally, within the EU15, the past decade has seen an increase in regional GDP per head disparities in Greece, the Nordic Member States, the United Kingdom, the Netherlands and Ireland though, in all but Greece, disparities between regions in terms of unemployment declined.

### 3. PERCEPTIONS OF THE REGIONAL PROBLEM

In reviewing perceptions of the regional problem (see Table 2), it is useful to divide countries into six groups. First, in *Austria, Denmark, Luxembourg* and the *Netherlands*, regional disparities are considered to be limited in both a national and an EU context, not justifying significant regionally-targeted interventions. In a second group, *Belgium, France, Ireland* and the *United Kingdom*, regional disparities are seen to reflect differentiated problems, calling for fine-tuned regional responses. *Finland, Sweden* and *Norway* form a third group, all with sparsely-populated problem areas in the north but also with all-region, growth-oriented elements to policy. Fourth, *Germany* and *Italy* exhibit severe regional differences which provide the main focus for policy - east-west in Germany, south-north in Italy. Fifth, notwithstanding significant internal disparities, *Greece, Portugal* and *Spain* are mainly concerned with enhancing national development. Finally, in the *EU12*, internal disparities are marked (particularly between capital city and lagging regions often along eastern borders) and there is generally also a major development gap with the rest of the EU. In these countries, too, the policy stress is on national development.

#### 3.1 Limited disparities

In *Austria*, the general perception is that regional problems are limited. The view is that they are closely related to the country's topography which implies that conventional interventions such as large-scale business support are not generally effective. With respect to changes over the last decade, traditional east-west disparities are declining and, since EU enlargement, a new boom area is developing in the Vienna-Győr-Bratislava triangle. Cross-border cooperation has become an important element of spatial planning and regional policy. One of the growing challenges is to provide basic public services all over the territory, given economic efficiency concerns. With mobility increasing, settlement structures are becoming more scattered, leading to urban-hinterland problems such as increasing commuting. Moreover, old town centres are losing their importance because large shopping facilities are locating out-of-town. In contrast, Austria's main cities, Vienna and Graz, are confronted with immigration which causes specific urban problems such as social segregation. In order to solve some of these challenges, endogenous potential in the regions is being strengthened and cooperation (also beyond national borders) enhanced.

In *Denmark*, income differences between the capital city area of Copenhagen and the rest of the country are, by international standards, minor. While regional unemployment levels have become more balanced, a number of relatively remote and geographically scattered pockets of underperformance remain. Thus, there is a dual perception of the regional problem which was institutionalised in the 2005 Business Development Act. On the one hand, it is seen as necessary that all regions contribute to maximising national economic growth; on the other, equity considerations remain relevant with respect to less well-off peripheral areas. In order to achieve a better understanding of the nature of the problem and to formulate appropriate policy solutions, a new development project is being undertaken jointly by central government and the regions. The aim is twofold: to provide a more uniform and sophisticated picture of the economic situation in the regions; and to support the evaluation of programmes and projects through a clearly-defined set of indicators.

Table 2: Current perceptions of the regional problem in the EU15, Poland and Norway

Austria	Traditional regional disparities between east and west are declining. The problem is limited to the urban-rural dimension, not justifying large-scale regional interventions. Current policy concerns are: high commuting rates; demographic change and mountainous/rural areas; market liberalisation and increasing social disparities; and border problems.
Belgium	Flanders is generally prosperous but has issues relating to old mining areas and agglomeration problems/lack of space. The focus has shifted over time from employment concerns to innovation potential/FDI. Wallonia has significant internal disparities, which are, however, declining. Main concerns are old industrialised and rural areas as well as poor education levels.
Denmark	Apart from relatively remote and scattered pockets of underperformance, standard regional disparities are very limited. Policy aims to maximise regional contributions to national growth; there is also preferential treatment for less-well-off/underperforming peripheral areas.
Finland	The main problems relate to differences between the north and east and the rest of the country and between urban agglomerations and remote areas in the hinterland. Of key policy concern is demographic change which affects sparsely populated areas most severely.
France	The perception on the problem has changed and it is increasingly seen as differentiated. Key concerns are the urban structure, rural areas and firm relocation. Policy aims to increase overall competitiveness while, at the same time, addressing disparities at the sub-regional level.
Germany	The core problem is the ongoing structural socio-economic disparity between old and new <i>Länder</i> which has affected overall economic performance. Recent years have seen extensive debates about the rationale, focus and funding of regional policy. One view is that economic development policy should focus more on 'metropole regions'; another, that it should address rural area problems more. However, policy continues to target structurally-weak areas.
Greece	Disparities with the rest of EU15 and internally are significant due to Greece's peripheral position, fragmented economic/physical space and unbalanced regional structure. There are hints that the problem is not increasing further. Policy largely focuses on catching up with the rest of the EU.
Ireland	Over the past decade, national GDP/head has come to significantly exceed the EU average. At the same time, there are contrasting regional challenges related to urban agglomerations and the more peripheral south and west. Policy increasingly aims to address these problems.
Italy	North-south economic and social dualism continues to be the key reason for regional policy intervention. However, weak overall economic performance has led to increasing debates about the appropriate policy responses.
Luxembourg	The regional 'problem' is traditionally associated with steel restructuring (south) and fragile agriculture (north). The policy focus is on border issues and promoting international competitiveness/FDI. There is also a concern to increase the level of economic diversification.
Netherlands	The perception of the problem varies. Some actors view disparities as very limited whereas others argue that the north is still disadvantaged compared to the rest of the country. Policy focuses mainly on national development but also puts emphasis on weaker areas in the north.
Portugal	A new view of the regional problem has seen traditional north/south, coastal/interior divides replaced by: the emergence of two horizontal axes with Spain; a shift in underdevelopment from the interior to the periphery; and differentiation between the Porto and Lisbon regions. Policy aims to increase regional competitiveness in order to maximise growth and reduce disparities.
Spain	In GDP/head terms, the north-east regions above the Ebro plus Madrid and the Balears are above average. The national approach to regional development is embedded in the Structural Funds, with a stress on the competitiveness/productivity agenda; there is also a constitutional commitment to balanced development.
Sweden	Disparities have been increasing. The more urban areas in the south have seen a concentration of population and economic activity while the north-east is expected to have the highest share of the elderly in the future. Debates are ongoing about the importance of larger and more diversified regions for maximising national growth and for more balanced regional development.
UK	The gap between the south-east and the rest of the country remains the core concern. Also, awareness of sub-regional disparities, which are increasing, is growing. In England Regional Development Agencies aim to address these sub-regional challenges. Urban areas are seen as the main drivers of growth.
Poland	The gap between the well-developed core regions, which are mainly situated in the west, and the rural and old industrialised east and north is increasing. Policy aims to address the double challenge of catching-up with the rest of the EU while, at the same time, reducing regional disparities.
Norway	The main regional challenges concern sparse population and peripheral areas with accessibility problems. The concentration of population in urban areas is also an issue, as are problems with industrial structure and the dependency on primary industries. A strong district element was (re) introduced by the 2006 White Paper in order to improve the situation of rural and peripheral areas.

In *Luxembourg*, the regional problem, such as it is, is traditionally associated with the restructuring of the coal and steel industries in the south and with fragile agricultural areas in the north. The nature and objectives of regional policy are fundamentally affected by the small size of the economy and the fact that the country is effectively a border region. For this reason, regional policy is largely synonymous with national industrial and economic policy. One challenge is seen in the fact that the economy lacks diversification, with a focus on the financial services sector as the motor for development. Another issue is the strong degree of centralisation of economic activities in the centre of Luxembourg and related congestion problems.

In the *Netherlands*, there are debates about the nature of the regional problem. On the one hand, and as reflected in the fundamental interdepartmental review (IBO) of regional policy in 2004, the Ministry of Economic Affairs argues that disparities between the northern provinces and the rest of the country are small and that more emphasis should be placed on stimulating economic development throughout the country. On the other hand, the northern provinces argue that their standard of living is still considerably lower than in the rest of the country and that continuous efforts and resources will be necessary to reduce economic differences. Following the 2004 *Peaks in the Delta* White Paper, the emphasis on efficiency aspects has grown. Nevertheless, the specific situation of the north is still acknowledged, with extra national funds available as transitional support until 2010.

### 3.2 Differentiated problems

In *Belgium*, the regional problem is rather complex due to the country's highly decentralised structure. Throughout history, the two main regions, Flanders and Wallonia, have evolved very differently in socio-economic terms. But also within the two regions various regional problems exist. For example, in Flanders, one of the most prosperous regions in Europe, some municipalities, such as Limburg, are facing relatively severe unemployment. Another concern are agglomeration problems in the areas around Antwerp and Gent where unemployment is also high, contrasting with the metropolitan border area around Kortrijk-Roeselare which has virtually no unemployment. In Wallonia, the situation has stabilised since 2000, yet quite substantial differences between the provinces remain. Of particular concern are old industrialised and rural areas. The latter cover more than 50 percent of the Walloon territory. There is also the general issue of poor qualification levels within the population, regarded as a root cause of long-term unemployment.

In *France*, the perception of the regional problem has undergone fundamental change. In the 1970s, regional problems were perceived as rather uniform and predictable but this view no longer holds. During the 1980s, territories and sub-national actors were given a more active role in the context of decentralisation and problems came to be seen as more differentiated and dependent on the development potential of different areas. The relative importance of the Ile-de-France capital region is still seen as problematic, as is the lack of major urban centres of European standing. However, at the same time, the capital's potential as a growth motor is recognised and specific urban-related challenges have been identified. A further and more differentiated issue relates to rural areas which have, in the past, been confronted with out-migration and a high dependence on agriculture. Moreover, the restructuring of old industrialised areas has not yet been completed. Debates revolve

around how best to increase the country's overall competitiveness while, at the same time, responding to particular disparities at sub-regional or municipality levels.

In *Ireland*, the economy has undergone major change since the early 1990s and has caught up with previously more wealthy Member States. No Irish region now falls below the Convergence/Objective 1 GDP per head threshold and, yet, significant development disparities remain. Regions in the more prosperous eastern and southern parts of the country, which were more developed at the outset, have prospered to a much greater extent than those in the west, north-west and midlands. In the Greater Dublin region, concerns relate to economic centralisation, congestion, labour shortages, and urban sprawl. In contrast, regions within the Border Midlands and West area continue to show economic weakness – as reflected in a limited industrial base, an economy with a number of vulnerable sectors, a weak urban structure and deficiencies in infrastructure, poor graduate retention and a consequent 'brain drain', and low levels of clustering of economic activity. These contrasting regional challenges have led to a differentiated policy response in the new National Development Plan where one of the high-level objectives is for balanced regional development, with regions achieving their full potential.

In the *United Kingdom*, the gap between the south-east and the rest of the country remains a core concern for regional policymakers, although all regions have experienced considerable growth in recent years. Beneath the regional level, there is increasing awareness of sub-regional disparities which have been growing strongly. There is now a significant evidence base that points to areas of strong economic growth existing in close proximity to areas of economic decline. For instance, differences in unemployment rates within regions are greater than differences between regions. Also, significant sub-regional problems relate to output and growth rates which are usually more accentuated within the richer regions. The creation of Regional Development Agencies in England pushed the (sub-) regional dimension towards the top of the policy agenda. In particular, the view is that urban areas can contribute significantly to catch-up processes. However, nearly all best performing cities are in the south. Moreover, ongoing urban deprivation continues to pose policy challenges, while debates continue about which measures are best delivered at which level.

### 3.3 Sparsely populated problem regions

In *Finland*, significant problems remain in the north and east, and there are major differences in development prospects between urban centres and the more remote areas of the country. Of major concern is the changing demographic situation. The population in Finland is decreasing and is ageing faster than elsewhere in Europe. This situation clearly has a negative impact on the sparsely populated areas which are, in addition, confronted with out-migration. Overall, urban areas, regional centres and their surrounding areas continue to have better development prospects, while the more sparsely populated and peripheral regions face most challenges in terms of industrial development, standards of living and welfare. The past decades have witnessed a major concentration of population in the cities and their surrounding areas. This trend has slowed in recent years, with smaller regional centres becoming more attractive due to factors such as lower costs and the

increase of commuting to larger cities. The policy challenge is to find adequate solutions for these trends while, at the same time, maintaining international competitiveness.

In *Sweden*, the perception of the regional problem has remained unchanged in recent years and is based on the Government Bill of 2001. While acknowledging the traditional regional problem, the Bill created circumstances where all regions could contribute to national economic development according to their potential. Hence regional development policy aims largely to support growth throughout the country. However, disparities, measured in GDP per head, have recently been increasing. The more urban regions in the south have, in particular, seen a concentration of population and economic activity. The north-east, on the other hand, is expected to have the highest share of the elderly in the future. Hence, debates are ongoing about the importance of larger and more diversified regions for generating growth. It is felt that, through regional enlargement, competences can be reinforced and specialisation encouraged, leading to more balanced territorial development.

In *Norway*, the regional challenge relates to sparse population across much of the country and peripheral areas that experience accessibility problems due to long distances to regional centres and markets. Related, there has been an ongoing centralisation of population due to differential birth rates and migration. Over time, urban centres have been experiencing an increase in population whilst rural districts have been losing inhabitants. The industrial structure has also been part of the problem. Certain areas are overly dependent on primary industries and single enterprises and are now facing restructuring challenges. The 2006 White Paper introduced a significant change of focus to regional policy. It added a strong district (i.e. peripheral area) element to the view of the regional challenge and saw a particular need to improve the situation of rural and peripheral areas, both financially and in terms of their relative situation. This complemented new initiatives introduced in a 2005 White Paper (under the previous government) which focused more on an all-region, growth-oriented approach.

### 3.4 Severe and concentrated regional problems

In *Germany*, the main challenge relates to ongoing weaknesses of the new *Länder*. Since reunification, the new *Länder* have been confronted with different and interrelated problems, ranging from a 'brain drain' to weak economic growth and social deprivation. Difficulties associated with their integration have significantly reduced the economic performance of Germany as a whole, although there are signs of recovery. Recent years have seen extensive discussions about the rationale, focus and funding of regional policy. The view of the federal government is that significant funding is needed to stimulate economic development in areas of structural weakness, notably the new *Länder*. However, questions have been raised about funding levels and the appropriate geographical focus of policy. In addition, there are concerns about the possible negative effects of increased international competition, leading to calls for a redirection of regional policy resources to the old *Länder*. Another view is that economic development policy should focus more on the largest agglomerations ('metropole regions'). There are also debates about the extent to which public investments in infrastructure and key services are sustainable in rural areas facing out-migration. Despite this, policy continues to target structurally-weak areas.

In *Italy*, the focus of regional policy remains on the south of the country, the so-called *Mezzogiorno*. Recent government analyses have emphasised that, when it comes to the underlying factors that cause this north-south divide, it is the intensity rather than the nature of the problem that differs between the more advanced Centre-North and the weaker *Mezzogiorno*. In recent years, Italy as a whole has been confronted with relatively weak economic performance and stagnating growth rates. The current debate revolves around the question to what extent the two macro regions are structurally different from each other and what policies could provide solutions for both challenges, i.e. increasing macroeconomic growth while reducing internal disparities.

### 3.5 Countries with a national development focus

In *Greece*, internal disparities measured in GDP per head, unemployment and the provision of basic public services have been growing over the last decade. With the exception of the areas around Thessaloniki and Attiki (Athens), the country's regions do not have sufficient critical mass in terms of population, production and technological dynamics to meet the multiple challenges with which they are faced - whether linked to the structural problems of the economy as a whole or to problems emerging within each region or group of regions as a result of increasing competition. Yet, there are hints that the process of inter-regional divergence may be coming to a halt. At the same time, Greece is still lagging behind the rest of the EU15, although growth rates have been significantly higher than in most EU15 countries. In response, the policy focus remains on increasing the growth and competitiveness of the economy as a whole while, at the same time, reducing inter- and intra-regional disparities.

In *Portugal*, recent studies have confirmed that disparities are declining only marginally at the NUTS II level. More importantly, the analyses have replaced the traditional conceptualisation of the regional problem (coastal versus interior and north versus south) with a more complex appreciation centred around four key themes: the emergence of a new spatial dynamic along two horizontal axes with Spain; a shift in the spatial basis of underdevelopment from the 'interior' to the 'periphery'; a significant differentiation of the situation in the two main development poles - Grande Lisboa and Grande Porto (with much stronger development impulses in the Greater Lisbon area); and strong territorial variations in competitiveness. It is acknowledged that ongoing interventions are necessary to support convergence, especially given that positive trends in social cohesion have not been matched by a similar performance with respect to regional competitiveness. Accordingly, the view is that public policies need to focus not only on improving national competitiveness (with Lisbon as the motor of development) but also on increasing regional competitiveness more generally.

In *Spain*, there is a constitutional commitment to balanced development and a significant fiscal equalisation system ensures the equal distribution of public services. National regional policy is relatively low-key, partly due to the fact that the regions have extensive economic development powers. The national approach to regional development is embedded within the Structural Funds system, and is linked to the operation of national sectoral programmes. The government has introduced a number of such programmes with significant regional implications - a programme for competitiveness, a business promotion

plan, an innovation programme and a major, long-term infrastructure strategy. Such programmes have a strong focus on national competitiveness and development. In terms of regional disparities, changes to the nature of the regional problem have been relatively minor in recent years, albeit with declining disparities since 2000.

### 3.6 The EU12 Member States

In *Poland*, aggregate growth has been significantly above the EU average over the last decade. However, at the same time, the gap is widening between well-developed core regions, which are mainly situated in the country's western parts, and depressed areas on the eastern periphery. This trend is increasingly seen as a significant challenge in setting strategic priorities for economic development. Economic activity is especially concentrated on the metropolitan areas of the main cities such as Warsaw, Katowice and Gdansk. This has contributed to rising competition at a sub-regional level and to a loss of importance of medium-sized cities. A fundamental issue for regional policy, therefore, is seen to be the link between the different metropolitan cores and their relationship with smaller towns and less developed areas in their regional hinterlands. In addition, the restructuring of Poland's large and uncompetitive heavy industrial centres remains a significant regional policy challenge.

In the rest of the *EU12*, the key economic challenge is to reduce the development gap with the EU15. Of the 71 NUTS II regions which had GDP per head below 75 percent of the EU average in 2004, fifteen are in Poland, eight in Romania, seven in the Czech Republic, six in Bulgaria and Hungary and three in Slovakia, not to mention the three Baltic states and Malta. In addition, all CEE countries are confronted with significant socio-economic problems inherited from centralised state planning systems. However, as Figure 2.1 made clear, the group is very heterogeneous with respect to levels of GDP per capita, national growth and internal disparities. While, for example, the Baltic countries have experienced remarkable growth rates over the last decade, the two youngest Member States, Bulgaria and Romania, lag significantly behind. With respect to regional development, the Czech Republic, Slovakia and Hungary have all witnessed major inter- and intra-regional differences yet, in countries such as Bulgaria, regional development disparities are less pronounced. A particular feature of many EU12 countries is that capital regions have developed quite dynamically whereas rural and old industrialised areas continue to lag behind. In all such countries, national development lies at the heart of the policy agenda.

### 3.7 Comparative points

A number of comparative points emerge with respect to the perception of the regional problem. First, it is generally acknowledged that disparities expressed in core economic indicators persist, although in some cases they are declining whilst in others they not seen as a real problem. Nevertheless, nearly everywhere the view is that there is an ongoing need for intervention in order to achieve more balanced territorial development. However, in light of increasing international competition, there are debates about the right means and measures for policy. In many countries, the traditional focus on designated problem regions is disappearing, giving way to a more differentiated approach to regional policy.



Second, in a number of countries, there is growing focus on the sub-regional dimension of the problem. This not only requires more tailor-made solutions but also that each sub-region participates in the process of economic renewal according to its individual needs and potential. On the one hand, this implies more autonomy for regions to set their own objectives and priorities. However, on the other, it may lead to more internal competition for resources, thus demanding more policy coordination and collaboration. This is a theme considered further in Section 6.

Third, and related, there is growing concern about the need to raise the competitiveness of the economy as a whole. Following EU enlargement, this is a strong theme in most of the new Member States and it is also an important priority in the EU15 Cohesion countries. In Member States with below-average levels of economic development, national competitiveness and economic catch-up are fundamental policy objectives. However, enhanced competitiveness is also a core goal in many other EU15 countries, not only at the national level but also in terms of the contribution which each region can make to national development. At the same time, the traditional concern with weaker regions, regions in need, remains on most policy agendas. More so than in the past, trade-offs have increasingly to be made between the equity and efficiency objectives of regional policy.

## 4. THE POLICY RESPONSE

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

### 4.1 A country-by-country review of change

Beginning with the EU15, regional policy in *Austria* is closely aligned with EU Cohesion policy; indeed, there was no strong regional policy prior to EU accession in 1995.<sup>17</sup> With the move to a new EU programming period, there have been a number of significant implications for regional policy in Austria. One is that the nine federal states (*Länder*) have been confronted with a marked reduction of EU resources (roughly 30 percent). At the same time, the abandonment of the micro-zoning of EU funds, combined with new EU priorities as defined by the Lisbon agenda, has increased the likelihood that central areas will benefit from support and that lagging areas may lose out. The reduced coverage of the regional aid map may also act against such regions. No major aid schemes are now targeted at designated aid areas; instead, most support is directed towards the development of new technologies, R&D and innovation and hence mostly towards areas with good innovation potential such as urban agglomerations. On the other hand, significant funding remains available under the European Agricultural Fund for Rural Development (EAFRD) which tends to favour more rural and peripheral areas. As regards implementation, this remains a *Land*

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<sup>17</sup> In Austria, regional policy and spatial development have no definition in law so that all federal and *Land* measures which focus on specific areas can be interpreted as regional policy. While spatial planning is a *Land* responsibility, the federal level (in the form of the Federal Chancellery, BKA) plays an important coordination role, as does the Austrian Conference on Spatial Planning, ÖROK.

responsibility. While a number of *Länder* continue to focus on the equity aspects of regional policy, most concentrate support on regional strengths. More generally, the coordination benefits of developing a National Strategic Reference Framework have been viewed positively. There are plans for regular follow-up meetings to help improve the governance of regional policy.

Historically, policies for regional development in *Belgium* have tended to be defined in rather narrow terms, concentrating mainly on regional aid schemes. Following the abolition of federal framework legislation, the 2003-05 period saw new regional aid legislation introduced at the regional level. In Flanders, the focus was on a horizontal approach involving support for investment (in SMEs everywhere and large firms in the designated aid areas); environmental aid, advisory measures and training aid. This horizontal approach, based on competitive selection procedures, has since been maintained for the 2007-13 period. In contrast, there continues to be an emphasis on lagging regions in Wallonia, as reflected in the new regional aid map. Away from regional aid, both regions have seen developments in business environment support. A new "Flanders in Action" programme underlines the importance of innovative and creative entrepreneurship and services for SMEs, as well as industrial estates policy. In Wallonia, the 2005 Marshall Plan focuses on priority actions and areas determined by the regional government, including new urban and rural zones, support for clusters and a new competitiveness poles strategy. Finally, in both regions there is an enhanced stress on policy coordination - in Flanders via the Flanders in Action programme and in Wallonia in the context of the renewed "Future Contract", a wide-ranging regional policy document which strives to link together the various components of economic development. Finally, the institutional set-up of the country and related division of competencies remain a prominent topic on the political agenda following the June 2007 elections.

After a long period of policy stability, covering well over a decade from 1991 when the regional aid package was abolished, a new regional policy approach has been developed in *Denmark* and will come into full operation in 2007. This new approach stems from a major reform of local government, which saw 14 *Amter* reduced to just five regions (and 275 districts cut to 98), and from a related Business Development Act, passed in June 2005, which gave the new regions statutory responsibility for economic development through statutory partnership bodies, so-called regional growth fora. There are six fora, one for each region, with an additional one for the peripheral island of Bornholm. They are partnerships of local government (the new districts and regions) as well as private sector organisations and knowledge institutions. Their prime task is to develop regional strategies and programmes for their regions, which are mainly growth-oriented (focusing on innovation, ICT, entrepreneurship and human resources) but may also have an equity component (centred on tourism and peripheral areas); thereafter, project funding is generated mainly from European and local sources, plus additional private and public funds. The new system involves closer statutory relations between the different tiers of government, with local authorities well represented on the fora and with fora funding from the local authority and national levels. Moreover, the fora must sign partnership agreements to ensure that their regional strategies are aligned with the broader globalisation strategy of the government. While the approach is uniform across the country,

funding favours peripheral areas (with 60 percent needs-based and 40 percent population-based). This, and the new peripheral areas map, means that there is now an explicit equity component to what previously was very much a growth-oriented regional policy.

In *Finland*, there have been some significant policy developments over the past year, although the prime objectives of regional policy have not changed: to strengthen regional competitiveness; safeguard the service structure; and achieve a balanced regional structure. The development of the NSRF has been important and has helped to ensure that national and EU programmes are now more aligned with, for instance, the establishment of a national coordination committee (though it is national regional policy which remains the priority policy). Regulatory changes have seen a new Structural Funds Law, a revised Regional Development Act and a new Law and Act on state aid for the development of business. Together, these aim to simplify and improve the delivery of their respective policy instruments. The first two measures have also tried to enhance cooperation between the central and regional levels and have reinforced the role of Regional Councils in regional development. Finally, the election of a new government in March 2007 is likely to see a more strategic approach taken to regional policy, with some changes in policy emphasis. The urban component of policy may be strengthened through a new metropolitan policy (for the capital city region), while efforts continue to enhance the effectiveness of policy for weaker regions. Other expected developments include further simplification and coordination (including the bringing together of regional policy functions within a single ministry), expected reductions in the number of programmes and changes to regional responsibilities.

In *France*, regional policy has demonstrated considerable continuity in respect of the policy strands laid down in 2002 which responded to perceived economic development pressures relating to EU enlargement, internationalisation and decentralisation. The five main objectives were: to encourage the international orientation of regions (enhancing the role of large towns); to involve all parts of France in national development (especially rural areas); to use regional development to contribute to wealth creation (through forward looking policies such as competitiveness poles); to counter regional inequalities through promoting equal opportunities (not equity); and to revise central-local government relationships. More recently, the drive for competitiveness has been reinforced through the establishment and development of the policy for competitiveness poles, with a further five designated in July 2007, taking their total to 71. Further, a new generation of state-region project contracts has been negotiated, concentrating on large-scale infrastructure projects under three main priority themes - the promotion of territorial competitiveness and attractiveness, the environmental dimension of sustainable development and social and territorial cohesion. Following the change of government in June 2007, the stress on sustainable development seems likely to grow, with perhaps more focus on large infrastructure projects. Finally, policy increasingly concentrates on potentials as well as on problems. Thus, while urban policies are still based on a zoning approach, the role of cities as growth motors has been enhanced through metropolitan cooperation; while rural policies continue to utilise "zones of rural development", entrepreneurship and innovation are being stimulated in newly-created rural excellence poles; and industrial restructuring

challenges are being tackled not only through “fire-fighting” job losses but also through developing longer-term strategies linked to regional competitiveness.

In *Germany*, the main recent regional policy developments have followed on from the federalism reform of July 2006 or have occurred in the context of the new regional aid guidelines for 2007-13 and the development of the 2007-13 Structural Funds programmes. Following the federalism review (which considered the allocation of tasks between federal and *Land* authorities), the core domestic regional policy instrument continues to be the Joint Task for the Improvement of Regional Economic Structures (GA or *Gemeinschaftsaufgabe ‘Verbesserung der regionalen Wirtschaftsstruktur’*) which mainly finances direct aid to businesses and business-oriented infrastructure. Despite consensus over the role of the GA and on the need for active regional policy for structurally weak regions, recent debates have emerged over appropriate levels of funding as well as the specific shape and focus of policy instruments. As all levels of government have experienced several years of fiscal constraint, questions have arisen over the resources allocated to the new *Länder*, both for investment purposes and in the form of interregional and interpersonal social transfers. In addition, discussions have focused on the geographical orientation of policy, notably whether specific policy approaches are needed for dynamic metropolitan areas, and whether peripheral, rural areas require special assistance. Although these debates have been intense, they have not led to changes in German regional policy, and the commitment of policymakers to the core of the current approach remains solid. Actual policy developments have included: a reduced GA budget in response to broader fiscal constraints, leading to uniform cutbacks across all recipient *Länder*; changes in Structural Funds allocations, with the new *Länder* experiencing more of a cutback than the old *Länder*; agreement to replace the annual GA Framework Plan with a multi-annual Coordination Framework from 2008 and to rename the GA Planning Committee the GA Coordination Committee; and the alignment of GA policy with the 2007-13 regional aid guidelines.

Since EU accession, regional policy in *Greece* has traditionally been built around EU programmes, combined with regional aid under a series of Development Laws. Both aspects have been subject to review. A National Strategic Reference Framework has been developed for 2007-13 and accompanying EU operational programmes are currently being negotiated. In addition, a new regional aid map has been agreed and a new Development Law is being progressed. Under the NSRF, an important change has been the move from 13 to five programming regions. While efforts have been made to widen the participation of local authorities in the programmes, the main focus has been on enhancing programme effectiveness by increasing the degree of central control. Also important has been the stress placed on EU policy priorities and, in particular, the Lisbon agenda. The NSRF focus is to enhance the country’s growth potential, though the need to reduce inter- and intra-regional differences is acknowledged. As far as regional aid is concerned, the new aid map continues to be country-wide, but will introduce more differentiated aid ceilings post 2010, though it will not impact on the domestic award matrix prior to that. Finally, a number of broader policy developments are worth mentioning: a 2005 law on private-public partnerships which is expected to boost investment in local economies; a 2005 rural development law, which aims to promote entrepreneurship and production in rural areas;

another 2005 law which established regional innovation poles, promoting regional development through the creation of regional centres of technology; a new development programme (Thiseas) to support local administrations; and the EU JEREMIE programme to assist SMEs in the periphery (with Greece the first Member State to sign an agreement).

In *Ireland*, economic development policy in recent years has adopted an integrated programming approach based around an EU-co-funded National Development Plan (NDP) for 2000-06. With much-reduced EU funding for the new programming period, the 2007-13 NDP will be financed entirely from national sources and will be closely linked to the national capital investment budget. Within the new NDP, the focus is on: tackling infrastructure deficits; enhancing enterprise development, science, technology and innovation; providing working age training and skills to improve economic performance, competitiveness and capacity; integrating regional development within the National Spatial Strategy (NSS) framework; investing in long-term environmental sustainability; realising opportunities to strengthen all-island collaboration; delivering a multi-faceted programme for social inclusion; and providing value for money. The regional development objective involves promoting balanced regional development and maximising regional potential by, in particular, developing and promoting the regional gateways and hubs identified under the NSS. The future Structural Funds have been programmed separately from the NDP and are much more narrowly targeted, though a number of objectives are similar (most obviously, the stress on promoting competitiveness and the Lisbon agenda but also the focus on the NSS). Finally, with respect to regional aid, the 2007-13 guidelines have significantly reduced both designated area coverage and award maxima.

In *Italy*, the past year has been a period of intense regional policy activity, reflecting the preparation of a National Strategic Document (NSD) and related Operational Programmes for 2007-13, the finalisation of a new regional aid map and, importantly, the development of the main principles which will underpin the implementation of regional policy in the new policy period. The "Lisbonisation" of EU Cohesion policy, combined with its own policy priorities, has led the new government to give a renewed and separate identity to national regional policy, bearing in mind the constitutional imperative to strive for balance in socio-economic development. Whereas, previously, domestic policy efforts were subsumed within EU Cohesion policy, the NSD has developed a new comprehensive strategy for regional development for 2007-13 which covers the whole country, utilises separate EU and domestic regional policy budgets (the latter via the FAS, Fund for Underutilised Areas), involves significant resources (€124.7 billion over seven years) and adopts common financial planning, monitoring and evaluation procedures. The new approach can be viewed as the rebirth of a distinct domestic regional policy (the FAS accounts for just over half the combined budget). It has a wider territorial focus than Cohesion policy (the main target being the *Mezzogiorno* as a whole, not just the Convergence regions), a broader thematic coverage (complementing Cohesion policy) and a territorial development philosophy rather than a narrow focus on growth and competitiveness. The new approach operates within a multi-level governance framework which, to counter the increased complexity of policy, aims to bring together central and regional levels more than in the past. Finally, regional aid is currently in limbo, pending acceptance of the new map. However, a number of new

policy instruments have been introduced, including support for industrial innovation projects, part of the government's broader competitiveness agenda.

In *Luxembourg*, regional policy has demonstrated a high level of continuity over the past few years. The general orientation of economic policy has been maintained, with a focus on promoting endogenous development and attracting foreign investment. Prior to the agreement on a new regional aid map for 2007-13, the last significant regional policy change was in 2000 when a new law on regional aid was adopted. This was part of a broader shift away from the use of framework legislation, covering all the key economic development measures, and towards separate laws for each of the main aid schemes, aligned with the relevant EU state aid frameworks (regional aid in 2000, environmental aid in 2004). The new aid map involves a halving of population coverage (to 16 percent of the national population), but with aid maxima unchanged at 10 percent (for large projects), albeit now in gross rather than net grant equivalent terms. New regional aid legislation is currently being drawn up in line with the new guidelines. Alongside these aid-related developments, there has been a growing stress on improving the general business environment, infrastructure and access to finance. In addition, more weight has been placed on horizontal aids, particularly for R&D and SMEs. Finally, a debate on territorial and administrative reform is underway, focusing particularly on the possibility of merging municipalities which may lack the critical mass to provide services.

In the *Netherlands*, a fundamental interdepartmental review of regional policy and the *Peaks in the Delta* White Paper, both dating from July 2004, laid down new strategic directions for regional policy. *Peaks in the Delta* heralded a focus on development potential - that is, on regional projects and activities which generate most return for the national economy; and a preparedness to make policy choices in support of this vision. In taking steps to implement the *Peaks* approach from 2007, a number of policy changes have been made: the Spatial Economic Development Directorate within the Ministry of Economic Affairs has been reorganised along geographic lines to support the regional *Peaks* programmes; regional Programme Commissions (with representatives from business, the knowledge economy and the public sector) have been set up and *Peaks* programmes were produced in summer 2006 for the five *Peaks* regions outside the north; a 2006 test phase for tender-based project applications then underlined the regional dynamism generated around the selected themes but also uncovered some implementation challenges; and, finally, the 2007 tender process opened in June 2007. After a new coalition government took office in February 2007, the *Peaks* philosophy was endorsed and the selected regional *Peaks* confirmed. More than this, a further €100 million is to be made available under the regional policy budget from 2008. In the north, transitional provisions mean that a slightly different approach has been adopted via a new EU-co-funded programme which is broader in concept than the other *Peaks* programmes, including regional priorities as well as nationally-agreed regional strengths. Also, whereas the intention in the north is to bring together EU and *Peaks* funding in a one-stop approach to implementation, *Peaks* and EU funds will be administered separately elsewhere.

In *Portugal*, a Centre-Left government took office in February 2005. The new government's strategy centred on: 'a new contract of confidence, a plan and a commitment'. The 'contract of confidence' had a number of components, including a new Programme for

Investment in Priority Infrastructure (PIIP), measures to increase competition across various policy sectors and the creation of a favourable environment for business development. The PIIP, approved in June 2005, involved planned investment of €25 billion structured under three priorities: *basic infrastructure* (€16.8 billion), mainly transport and energy; *territory* (€3.8 billion), with measures for cities, tourism and the natural heritage; and *knowledge, information and training* (€4.4 billion). The 'plan' element of the strategy was a Technology Plan, which focused on the stimulation of knowledge, innovation and technology, mobilising the public and private sectors around a growth and competitiveness agenda. And the 'commitment' related to the restoration of public finances to a sustainable position. In progressing the strategy, several sectoral plans have recently been approved relating to sustainable development, spatial planning, technology and levels of educational attainment (the new opportunities initiative). In addition, the EU Community Support Framework, which is closely intertwined with domestic regional development measures, has been reprogrammed. There is now more support targeted at the development of human resources (in line with the new opportunities initiative) and more funding for the new operational programme for the economy (the 'new PRIME'). This takes a more concentrated and selective approach to economic development, focusing particularly on the three pillars of the Technology Plan (knowledge, technology and, especially, innovation). Bringing these various developments together, the NSRF for 2007-13 identifies five strategic priorities - *qualification* (promoting levels of educational attainment); *sustained growth* (enhancing the competitiveness of territories and businesses); *social cohesion* (increasing employment and strengthening employability and entrepreneurship); *urban and territorial participation* (pursuing environmental gains, promoting spatial planning and enhancing the connectivity of the territory); and *governance efficiency*.

In *Spain*, there have been no significant changes to the main elements of national regional policy - the Inter-Territorial Compensation Fund (FCI), which provides regional governments in poorer regions with support to finance investments in the fields of infrastructure, public works, irrigation, planning, housing, transport and communications; and the Regional Investment Grant, which, despite a new Royal Decree to align the scheme to the new regional aid guidelines, remains basically as before (albeit with a slight cutback in overall coverage). The general lack of change reflects the stress placed on maintaining a stable environment with respect to regional aid and regional policy more generally. Spatially-oriented policies anyway form only a small element of the national policy framework, given the highly decentralised nature of policymaking, the key role played by regional governments in economic development and the importance nationally of sectoral policies. On the other hand, the Centre-Left government which entered office in 2004 has approved some broader policy initiatives which impact on regional development. For instance, since the start of 2006, a plan for boosting enterprise has been introduced including a programme for innovation support in SMEs and a new national clusters programme. This is in line with an ongoing strategic shift from basic infrastructure provision to Lisbon-oriented themes. Notwithstanding these developments, the key political issue continues to concern territorial governance, with all the regions currently drawing up new statutes of autonomy as a basis for a further decentralisation and consolidation of power.

In *Sweden*, the past year has been dominated by the preparation of the new Cohesion policy programmes and the National Strategic Reference Framework (NSRF). The NSRF has introduced a common strategy for the country and has also strengthened coordination across policy areas. Bringing together EU Cohesion policy, domestic regional development policy and labour market policy has reinforced the policy focus on sustainable regional competitiveness, entrepreneurship and employment. The election of a new Centre-Right government in September 2006 has increased the commitment to growth and to businesses and may also enhance regional-level influence over development processes. However, the broad objectives of policy remain as set down in the 2001 Bill, to create 'well-functioning and sustainable local labour market regions with good levels of service throughout the country'. While regional differences are acknowledged (mainly via aid-based and problem-region-oriented measures, but also under the Structural Funds), the main thrust of policy is through a programme-based whole country approach, with Regional Development Programmes and Regional Growth Programmes as the primary policy instruments. Relatively little recent change has taken place in respect of these (the Regional Growth Programmes run until end 2007) or regarding regional aid (notwithstanding generally lower award ceilings). However, the new government has introduced a range of measures to support SMEs, with obvious regional development implications. There have also been some changes to the administration of policy. Within the new Ministry of Enterprise, Energy and Communications, regional policy responsibilities are now divided between growth-oriented and enterprise-related activities. More significantly, a parliamentary review into administrative structures and regional borders has suggested that more broadly-based regional authorities should take over responsibility for implementing and coordinating regional development from the county councils, including responsibility for the Structural Funds. However, the government has still to respond to these proposals.

In the *United Kingdom*, the key characteristics of the regional policy agenda in the 2003 consultation document, *A Modern Regional Policy for the United Kingdom*, remain in place: an interpretation of the regional problem based predominantly on the productivity agenda; viewing market or government-based failures to alleviate differences in the underlying drivers of productivity (competition, enterprise, innovation, skills and investment) as a core explanation of regional and local disparities; and a commitment to devolved or decentralised arrangements for regional policy delivery. More recently, several important government reports have set out the likely future evolution of regional policy - in particular, the *Review of Sub-National Economic Development and Regeneration in England* and the *Governance of Britain Green Paper*. While the overall policy focus remains on productivity-related targets (the core goal being to improve the economic performance of all regions), equity-related concerns continue to register, in part through the aim to reduce growth rate differentials between the best- and worst-performing English regions but also by reducing the spatial concentration of deprivation (a goal highlighted in the *Sub-National Review*). Key recent policy developments include: the inclusion of a broader range of policy areas under the regional development heading (as reflected in the Regional Economic Performance Public Service Agreement and the expanding remit of Regional Development Agencies (RDAs)); the ongoing rationalisation of supply-side business support measures (aiming to reduce over 3000 measures to less than 100 by 2010); the changing remit of England's RDAs (becoming responsible for integrated economic and spatial planning



strategies in the regions); and broader government efforts to address different growth/productivity factors at the appropriate spatial level (with policy delivery passed down to sub-regional and/or local levels as appropriate). Finally, the issue of democratic accountability at the regional level in England is being addressed by utilising democratic mandates at the national and local levels to supervise the activities of the RDAs. To this end, specific regional Ministers have been designated and the development of regional Parliamentary committees is being contemplated.

In *Poland*, regional policy is in a period of transition – from a traditional approach based on central interventions in targeted ‘problem’ regions to a strategic and integrated programming framework with an all-country perspective and increasing emphasis on competitiveness and productivity objectives. The changes began with far-reaching regional policy and public administration reforms in 1999 and were reinforced by EU accession in 2004. More recently, at the end of 2006 there was the parallel ratification of the National Development Plan 2007-15 and the introduction of a new Law on the Principles of Development. These have further delineated domestic regional policy principles, adding legislative weight to the evolutionary process and strengthening the strategic and administrative frameworks for policy design and delivery. Although the strategic focus retains some traditional concerns with struggling regional economies, the main objectives are competitiveness and productivity-related, covering all regions and viewing metropolitan areas as the key drivers of growth. The formal role of the regions, and their elected governments, in the formulation and delivery of regional policy is also recognised. At the same time, important practical challenges remain, concerning: the allocation of management and implementation responsibilities in the face of tensions between national and sub-national administrative tiers; the practical operation of policy in the regions given still limited regional institutional capacities; the development role of urban centres and their linkages to surrounding rural areas; the particular problems facing the less developed eastern regions and the relevance of the Lisbon agenda to such areas; and, more generally, the balance between basic infrastructure and more sophisticated efforts to enhance the business environment in regions. The 2007-13 Structural Funds programmes are seen to have an important role in helping to resolve these issues.

Within the remaining countries of the *EU12*, regional development challenges remain pronounced, especially in the Central and East European (CEE) Member States which, for the most part, continue to promote both economic catch-up with EU development averages and reduced internal disparities. Within most countries an important issue concerns the rapid growth of capital city regions compared to the generally sluggish performance of lagging rural and heavy industrial areas, often along eastern borders. While a number of EU12 countries have domestic regional policy frameworks in place, EU Cohesion policy programmes dominate in terms of the provision of regional support, even more so for the 2007-13 period. Reviewing the NSRFs, a number of features of the new policy approaches emerge. First, much support is being allocated to *national* programmes for infrastructure, environmental improvement, human resources and business support. Second, while there is a general commitment to maximising the development potential of all regions, most countries make some reference to support for regional development or balanced regional development. Third, various countries (e.g. Hungary, Lithuania, Bulgaria) also prioritise the

development of key growth poles and leading regions. Fourth, countries like the Czech Republic, Hungary and Poland have chosen to deliver substantial funding through regional OPs for the first time. Multi-region OPs have also been developed in Hungary and Poland. More generally, although traditional support for regional development remains a focus (through basic infrastructure provision in particular), Lisbon-type interventions are growing in priority (especially in capital-city regions). A further significant policy strand has concerned measures to improve the management and implementation of policies and programmes. Boosting administrative capacity and experience, particularly at the regional level (in the larger CEE countries), and improving institutional coordination and cooperation are key themes for the 2007-13 programming period.

In *Norway*, two important regional policy White Papers have been published in the past two years. In response to the evolution of the international policy environment, the globalisation of domestic markets and internal political and policy developments, a 2005 White Paper focused on the need to promote innovation, regional growth and small and medium-sized cities and adopted an all-country approach. While traditional perspectives were included in the analysis, with special attention drawn to the inherent disadvantages of the peripheral north and other sparsely-populated areas, the focus was on stimulating economic development in all regions through a regionally-differentiated policy. Following a change of government in September 2005, traditional regional issues have received more stress. The new government's (2006) White Paper moved from a regional policy focused on framework conditions and regional growth centres to one concerned also about improving service provision and the financial situation of municipalities, especially in the periphery. Improved policy coordination across Ministries was also highlighted and a new Cabinet sub-committee was established to this end. The 2006 White Paper also stressed the importance of a renewed social security concession to help offset the ongoing disadvantages faced by sparsely-populated and peripheral locations. This scheme was subsequently reintroduced under the 2007-13 regional aid guidelines, together with a more expansive regional aid map. More generally, the concern in the White Paper was to channel more funding to existing policy measures rather than introduce new initiatives. On the other hand, the 2005 White Paper proposal for a new Centre of Expertise programme was actively progressed, alongside initiatives for small peripheral communities and for linking culture and regional development. Finally, an administrative reform process is nearing completion. There has been a debate on the division of responsibilities between governance levels and about the geographical delimitation of the mid-tier of government. A December 2006 White Paper and subsequent parliamentary debate have suggested that regional-level tasks will not be greatly extended which, in turn, implies that the number of mid-tier regions may not be significantly reduced from the current 19. A final government decision is due in April 2008 and the new system will come into force in 2010.

## **4.2 Thematic developments**

The country-by-country changes which have been taking place can be divided up into four main categories: those which relate to the nature of regional policy and the relative weighting attached to particular policy measures; those which concern the objectives of policy and the principles on which it is based; those which impact on the spatial orientation

of policy, which areas are targeted and to what extent; and those which involve changes in how regional policy is administered. These are now reviewed briefly in turn.

#### ***4.2.1 Changes in the nature of regional policy***

There are a number of countries where there have been important changes to the nature of regional policy, culminating in new policy approaches from 2007. Following a major reform of local government and the allocation of statutory regional development responsibilities to the new regions, a programme-based regional policy has been introduced in *Denmark*. This is centred on six statutory partnership bodies in the regions (regional growth fora) which bring together local and regional authorities, knowledge economy representatives and the private sector to develop regional strategies aligned with the broader globalisation strategy of the government. In the *Netherlands*, the *Peaks in the Delta* approach to regional policy is now fully operational after a two-year development phase. Regional Programme Commissions have produced framework programmes under which regional projects can be selected which generate most return for the national economy. In *Italy*, domestic regional policy is no longer subsumed within EU Cohesion policy. Instead, because of the wish to retain a territorial development component to policy, a separate, programme-based, domestic regional policy has been developed to complement EU programmes as part of a new, unified regional policy. *Ireland* is another country where EU developments (and, in particular, in this case, much-reduced EU funding) have changed the relationship between EU and domestic policy. While there continues to be an integrated programming approach to economic development, with significant regional development elements, EU funding is no longer involved in the National Development Plan (NDP); it focuses, instead, on niche investments which complement the NDP.

In a number of other countries, the basic framework within which policy operates has not changed, but there have been a number of developments of note. In *France*, there are new state-region project contracts, multi-annual agreements to help coordinate central and regional policies in the regions. Different from the previous state-region planning contracts, they concentrate on a limited number of priority themes and focus on large-scale projects of national importance, the aim being to improve their strategic orientation and impact. In the *United Kingdom*, regional policy is broadening to include a wider range of policy areas as reflected in the expanding remit of RDAs in England; ongoing government efforts to address different productivity factors at the appropriate spatial levels are also expected to impact on the future nature of policy. Finally, in *Norway*, the 2006 White Paper has shifted the focus away from a regional policy focused on framework conditions and regional growth centres to one concerned more about traditional problem regions (the peripheral and sparsely-populated districts) and instruments (the social security concession).

More generally, the new EU programming period has had an obvious impact on the nature of regional policy in those countries with significant EU funding. In *Poland*, for example, there is now a strategic and integrated programming framework in place, coupled with important regional programmes. This is also the position in *Greece*, *Portugal* and *Spain*. Elsewhere in the EU15, there is evidence of an increasing alignment of EU and domestic policies – as, for instance, in *Austria*, *Finland* and *Sweden*, where enhanced coordination has been an important NSRF theme.

Table 3: The nature of regional policy in the EU15, Poland and Norway

Austria	Neither spatial planning ( <i>Raumordnung</i> ) nor the division of competencies for regional policy are defined in the federal constitution; the <i>Länder</i> are responsible for regional policy, with coordination and cooperation between government levels via the Austrian Conference on Spatial Planning (ÖROK). No strong regional policy prior to EU accession; policy closely aligned with EU Cohesion policy.
Belgium	Traditionally, regional policy was synonymous with regional aid and was governed by federal framework laws. More recently, policy responsibilities have been regionalised. Although regional aid remains important (especially in Wallonia), the current approach to regional economic development is broader. New policy documents in both regions support a more integrated approach to regional policy.
Denmark	A new institutional set-up integrates local, regional, national and EU economic development activities within a single programme-based policy structure which gives the recently-established regions statutory responsibility for economic development through partnership bodies (regional growth fora).
Finland	Regional policy covers a range of measures: strategic regional programmes, regional business aid, national special programmes (Centre of Expertise, Regional Centre Development, Rural and Island) and EU programmes. The strategic regional programmes help to align EU and domestic priorities.
France	Regional policy has a spatial development focus in France. It brings together wide-ranging financial and human resources, in particular via state-region project contracts. It has broad thematic coverage (applying a territorial approach to industrial, environmental and rural issues) and also involves a wide range of actors from different levels. The DIACT, formerly DATAR, plays the key coordination role.
Germany	The core of regional policy is the policy coordinated by the regional GA ( <i>Gemeinschaftsaufgabe</i> , joint task), mainly regional aid and business infrastructure support. The GA focus is on structurally-weak regions and regionally-exporting activities. Broader policy initiatives also target the new <i>Länder</i> .
Greece	There is no stand-alone regional policy. Instead, regional policy is built around EU Cohesion policy programmes. A Development Law provides the framework for investment support in Greece.
Ireland	Economic development policy follows an integrated programming approach under the National Development Plan (NDP) which, for 2007-13, is wholly domestically-funded. Regional development is centred on the implementation of the NDP (which has explicit regional development objectives), the strategic use of Cohesion policy funding and the mobilisation of the National Spatial Strategy.
Italy	For 2007-13, domestic regional policy has a separate territorial and thematic focus from EU Cohesion policy and a distinct budget. However, via the National Strategic Document (NSD), domestic and EU regional policy are brought together within a unified regional policy with agreed budgetary resources and uniform timeframes and common monitoring and evaluation procedures.
Luxembourg	Regional policy is not a distinct policy area except in regional aid terms.
Netherlands	Regional policy operates in line with the philosophy in the <i>Peaks in the Delta</i> White Paper. The focus is on developing the potential of all regions by making policy choices which target region-specific opportunities of national importance. Implementation is mainly via regional programmes, though support is also available for regional aid, industrial estates, urban economic policy and tourism.
Portugal	Regional policy is built around EU Cohesion policy. The policy focus is on improving national (and territorial) competitiveness, with Lisbon as the key engine for growth.
Spain	The constitutional commitment to balanced development is seen in two national policy instruments – the Inter-Territorial Compensation Fund, which provides regional governments in lagging regions with financial support for infrastructure and related investments, and the Regional Investment Grant. The national approach to regional development is embedded in the (sectoral) Structural Funds framework.
Sweden	Regional development policy is a programme-based all-country approach which aims to create well-functioning and sustainable local labour market regions with good levels of service throughout the country. Regional Development Programmes/Regional Growth Programmes are the main policy instruments. Regional aid is targeted mainly at the problem regions, as is Structural Funds support.
UK	Regional policy falls under the Regional Economic Performance Public Service Agreement. It has an ‘all-region’ approach and covers measures which impact on the key productivity drivers in the regions (competition, enterprise, innovation, skills and investment), as delivered through the RDAs in England (and related sub-regional and local bodies) and the Devolved Administrations elsewhere in the UK
Poland	Regional policy is moving from a traditional problem-oriented focus to a strategic and integrated programming framework, with an all-country perspective and an increasing emphasis on competitiveness and productivity objectives.
Norway	Regional policy has traditionally been known as district and regional policy, combining a (mainly aid-based) district policy targeted at designated peripheral and sparsely-populated areas, with a growth- and innovation-oriented regional policy available across all regions.

An overview of the nature of regional policy in the countries under review is provided in Table 3. In broad terms, they divide into four groups. First, reflecting the sheer volume of EU funding flows, there are those where regional policy operates mainly through EU Cohesion programmes: *Poland, Greece, Portugal* and, to some extent, *Spain*. Second, there are countries where regional policy is centred primarily on domestic regional programmes, albeit with varying degrees of alignment with EU programmes: *Austria* (at the *Land* level), *Denmark, Finland, Italy, the Netherlands, Sweden* and, through the NDP, *Ireland*. Third, regional policy has always had a broader spatial development orientation in *France*, where thematic coverage is extensive, involving a wide range of actors from different levels. This broader approach is increasingly found in the *United Kingdom*, too, where, in England, the policy focus is on the key drivers of productivity, involving a variety of initiatives and a complex mix of national, regional and local players. A broadly-based approach to spatial development is also found in Flanders in *Belgium*. In all three jurisdictions, regional strategies play an important integrating role. Finally, there is a group of countries where there is more emphasis on traditional regional policy approaches, in particular, regional aid: Wallonia in *Belgium, Germany* (under the GA), *Luxembourg* and *Norway*. On the other hand, there are obviously regional programmes at the *Land* level in *Germany* and partnership-based programming is also important at the county level in *Norway*. Indeed, following the devolution of regional aid budgets in 2003, county partnerships decide on funding allocations between regional aid, business infrastructure and other forms of regional development support.

Overall, the trend over time has been for the focus on regional programming to increase. This is, in part, a consequence of EU influences relating to the development of regional strategies and regional partnerships. However, it also reflects domestic factors - a broader shift towards promoting endogenous development, the need to maximise regional contributions to national growth, an increasing stress on regional competitiveness and development potential, and the belief that development decisions are best taken at the regional level (associated with broader decentralisation trends in many countries). At the same time, the policy weight attached to regional aid has been declining, reflecting ongoing pressures from DG Competition, an acceptance of the “less but better aid” mantra by many Member States, broader budgetary constraints and perhaps also the general move away from straightforward investment support and towards broader measures to improve the business environment (including innovation-oriented initiatives). These aspects are discussed further in Section 5.

#### ***4.2.2 Changes in the objectives of policy***

The objectives of regional policy in the countries under review are set out in Table 4. A significant number of these objectives have recently been reformulated in preparation for the new programming period which began in 2007. This has been the case, for instance, in *Austria, Greece, Ireland, Italy, Portugal* and *Poland*. In all of these countries, competitiveness objectives have been given considerable priority, not least due to the Lisbon goals and the weight attached to them under EU Cohesion policy. In addition, in most *EU12* countries, the priority attached to economic “catch-up” ensures a strong orientation towards national growth and development.

Table 4: Regional policy objectives in the EU15, Poland and Norway

Austria	There is no single national objective for regional policy; policy objectives are set at the <i>Land</i> level. <i>NSRF objectives</i> : to ensure quality of life, income and employment, to strengthen the competitiveness of regional economies and to increase the attractiveness of Austria's regions based on the principles of sustainable development. National objectives are aligned with EU goals (Lisbon agenda).
Belgium	No national-level objectives. Regional policy is a regional responsibility. Flanders has a horizontal focus (innovation and regional strengths) while Wallonia continues to favour a territorial approach.
Denmark	<i>2003 White Paper and 2005 Business Development Act</i> : Each region must maximise its contribution to national growth (priorities: innovation, ICT, entrepreneurship, human resources); peripheral areas are favoured to ensure they are not cut off from growth elsewhere (priorities: tourism, peripheral areas). Aim: to maintain Denmark's position as a country with the smallest differences between regions.
Finland	<i>2007 Regional Development Act</i> : to strengthen competitiveness in the regions; to safeguard the service structure throughout the country; to achieve a balanced regional structure. These objectives are unchanged from the 2002 Act and are expected to be broadly maintained in a 2007 Government Decision. The overall aim is to support a polycentric regional structure based around strong regions.
France	<i>2002 government goals (re-confirmed in 2005)</i> : to encourage the international role of regions (more focus on large towns); involve all parts of the country in national development (especially rural areas); use regional development to contribute to wealth creation (e.g. via competitiveness poles); correct regional inequalities through promoting equality of opportunity (rather than equity); revise central-local relationships. New government to continue competitiveness focus, plus sustainable development
Germany	<i>GA policy</i> : to ensure that structurally-weak regions can take an equal part in economic development through addressing locational disadvantages. Within the GA, there is an emphasis on supporting the export base in structurally-weak regions. Equity and efficiency goals are seen as complementary. Constitutional commitment to 'equal living conditions'.
Greece	<i>2007-13 NSRF</i> : The focus is on growth and competitiveness, while also aiming to reduce inter- and intra-regional differences. The new approach relies on policy effectiveness through simplified planning and implementation mechanisms. <i>2004 Development Law</i> : to change the country's investment profile and improve its development potential by enhancing its competitiveness and attractiveness. Reference is also made to balanced growth and regional convergence.
Ireland	<i>2007-13 NDP</i> : tackling infrastructure deficits; enhancing enterprise development, innovation, training provision etc to improve economic performance, competitiveness and capacity; integrating regional development within the NSS framework; investing in environmental sustainability; improving all-island collaboration; encouraging social inclusion; and delivering value-for-money. Balanced regional development, with regions achieving their full potential, is a horizontal theme. Focus on growth poles.
Italy	<i>2007-13 NSD</i> : to develop knowledge networks; to increase quality of life, levels of security and social inclusion in the regions; to strengthen productive chains, services and levels of competition; and to internationalise and modernise. The aim is to target the key weaknesses that impact negatively on national competitiveness. In addition, there is a constitutional commitment to 'substantial equity'. There is also an enhanced focus on sustainable development.
Luxembourg	Regional policy is largely synonymous with national industrial policy.
Netherlands	<i>2004 Peaks in the Delta</i> : to stimulate economic growth in all regions by exploiting region-specific opportunities of national significance.
Portugal	<i>2007-13 NSRF</i> : to raise educational qualification levels (thus stimulating knowledge, R&D and national development); to promote sustained growth by improving territorial and business competitiveness; to guarantee social cohesion by increasing employment and strengthening employability; to involve territories and cities in the pursuit of territorial objectives in line with the goal of reducing regional disparities; and to improve governance by modernising public institutions.
Spain	<i>1978 constitution</i> : to promote the conditions favourable to a more equitable distribution of income by overseeing the establishment of a fair and adequate level of economic equilibrium between the different parts of the country. Ongoing shift from basic infrastructure towards Lisbon-oriented themes.
Sweden	<i>2001 Government Bill</i> : to have well-functioning and sustainable local labour markets regions with an acceptable level of service in all parts of the country. This involves enhancing the potential and capabilities of every region, making them as attractive as possible to individuals and companies. Traditional problem regions have, however, retained their special status and continue to be favoured.
UK	<i>2004 REP PSA</i> : to make sustainable improvements in the economic performance of all regions (this is the primary goal); and to reduce the persistent gap in growth rates between regions. The 2007 SNR also has a commitment to reduce the spatial concentration of deprivation.
Poland	<i>NDP 2007-15, Priority 6 (on regional development and territorial cohesion)</i> : to create conditions for the growth of competitiveness of all regions in such a way as to promote economic, social and territorial cohesion and aim at levelling the development opportunities of <i>voivodships</i> . Focus on spatial order, decentralisation processes, the development of urban areas and rural development
Norway	<i>2006 White Paper</i> : to provide equal living conditions across the country; to maintain the features of the settlement pattern; to focus on and develop regional strengths. The ambition of the government is: to make people free to settle where they wish; to use the entire country to generate wealth creation; and to create conditions where people can move to the (peripheral and rural) districts.

In a second group of countries, regional policy objectives date back to the last major domestic reviews of policy which, for the most part, took place during the 2001-05 period. An overarching characteristic of the new policy frameworks introduced over that period was that they gave primacy to the twin objectives of regional competitiveness and national development, often in response to perceived globalisation pressures coupled with the need to maximise the contribution of regions to national growth and development. Thus, in *Denmark*, the main goal is for each region to maximise its contribution to national growth by focusing on four priority areas: innovation, ICT, entrepreneurship and human resources; in *Finland*, a key regional policy objective is to strengthen competitiveness in the regions; in *France*, core policy aims are to encourage the international role of regions, involve all parts of the country in national development and use regional development to contribute to national wealth creation; in the *Netherlands*, the focus is on stimulating economic growth in all regions by exploiting region-specific economic opportunities in the national interest; in *Sweden*, the overall goal of having well-functioning and sustainable local labour market regions in all parts of the country involves enhancing the potential and capabilities of every region; in the *United Kingdom* a commitment to make sustainable improvements in the economic performance of all regions is the primary policy goal; and in *Norway*, one of three policy priorities dating back to the 2005 White Paper is to focus on and develop regional strengths.

In contrast, policy objectives in *Spain* and *Germany* have not been subject to recent or even more medium-term change, dating back to the 1978 constitution in Spain and the establishment of the regional GA in Germany in 1969. This gives regional policy in both countries a strong equity orientation (focusing on structurally-weak regions in Germany and the most underdeveloped parts of Spain), although there is also a significant competitiveness component to policy under many *Land* programmes in Germany and sectoral plans and initiatives in Spain. Interestingly, there have been recent debates in Germany about the rationale, form and focus of policy; however, there remains a strong commitment to encouraging business development in structurally-weak areas. In any event, the dual goals of growth and equity are seen as complementary, in that the stronger performance of weaker regions is perceived to benefit to the economy as a whole.

More generally, few of those countries with a significant competitiveness orientation to their regional policy goals completely eschew an equity component to their objectives. The main exception is the *Netherlands* where, following the IBO report and *Peaks in the Delta* White Paper of July 2004, it was concluded that – in light of the limited regional disparities across the country – regional policy could only be justified if its focus was on promoting regional strengths of national importance. Elsewhere, the policy emphasis on growth and competitiveness is, often to a significant degree, offset by equity concerns. Thus, in the *Nordic* countries, there is a common desire to ensure equitable service provision in sparsely-populated and peripheral areas, combined with a wish to establish balanced and sustainable regional structures (polycentric development), a goal also given weight in *Austria*. Achieving territorial balance in regional development is similarly an issue in *Ireland* where, given congestion and related problems in the Dublin area, there is a desire to promote regional gateways and hubs across the country. In *France* and *Italy*, too, competitiveness themes have been accompanied by equity goals: to correct regional

inequalities (in France); and to respond to socio-economic disadvantage (in Italy). In the *United Kingdom*, the core objective under the Regional Economic Performance Public Service Agreement of improving economic performance across all regions is accompanied by a secondary goal of reducing the persistent growth rate gap between regions. In both *Greece* and *Portugal*, also, competitiveness objectives are balanced, at least to a degree, by concerns about reducing regional disparities. Finally, in *Poland* (and the same is true of many other EU12 countries), the overall regional development goal combines equity and efficiency objectives: “to create conditions for a growth of competitiveness of all regions in such a way as to promote economic, social and territorial cohesion and aim at levelling ... development opportunities”.<sup>18</sup>

In addition to the frequent combination of equity and efficiency concerns, it is of note that, in some countries, the level of priority attached to equity goals has been growing. For instance, in *Denmark*, following a period where the stress was almost exclusively on growth and development, peripheral areas have now been designated on which to focus support, while tourism and peripherality are two out of six priority themes under the 2005 Business Development Act. The aim is to ensure that Denmark’s position as a country with the smallest differences between its regions is maintained. In *Norway*, too, there has been a policy shift in favour of peripheral and sparsely-populated districts following a change of government in September 2005. Lastly, in *Italy*, the strong growth and competitiveness orientation of EU Cohesion policy has meant that national regional policy can no longer operate under its umbrella (as happened between 2000 and 2006). The need to ensure socio-economic “re-balancing” (*riequilibrio*), as required under the Italian constitution, has led to a complementary domestic regional policy being introduced with a territorial development philosophy rather than a growth and competitiveness focus.

In conclusion, it is also worth making the point that the goal of sustainable development appears to be moving up policy priorities. The concept of sustainability underlies regional policy goals in an increasing number of countries (including *Austria*, *Ireland*, *Sweden* and the *United Kingdom*) and has been highlighted explicitly in recent regional policy pronouncements in *France* and *Italy*. A national strategy for sustainable development (ENDS 2015) was approved in *Portugal* in August 2007.

#### ***4.2.3 Changes in the spatial orientation of policy***

The traditional focus of regional policies has been on the designated regional aid areas, narrowly-defined areas designated as eligible to receive regional aid support. More recent policy approaches have tended to adopt a broader perspective, frequently aiming to encourage all regions to maximise their contributions to national growth and development. In addition, there has been a tendency to focus on regional potential and strengths, with a related concentration on the development of urban areas, but also often striving to improve the links between urban centres and their rural hinterlands. As part of these developments, administrative boundaries have become more diffuse in a range of countries, with different policy initiatives being applied at different spatial levels. In this

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<sup>18</sup> Ministry of Regional Development (2006) *Strategia Rozwoju Kraju 2007-2015*, Warsaw, p.37



context, inter-municipal cooperation has risen up the policy agenda in a number of countries while the city-region concept has become more prominent in others. In *Sweden*, there was a shift of policy focus from administrative areas to local labour market regions in 2001 and these have remained at the core of policy.

An overview of the current spatial orientation of regional policy is provided in Table 5. It shows clearly the prominence of the all-region approach, associated in many countries with the move towards programme-based policymaking (discussed earlier). On the other hand, there remains a significant spatial orientation to regional policy – in part through the designation of areas for regional aid purposes, in part through differential funding flows to different areas, and in part through more specific spatial targeting in favour of urban centres, rural or peripheral areas, mountainous zones or island and coastal communities. The aim in this section is to briefly discuss recent changes to the spatial orientation of policy.

From the earliest days of regional policy, specific areas have been designated as the target for regional aid, normally reflecting income- and unemployment-related measures of disadvantage (except in the Nordic countries where the focus has traditionally been on peripheral, sparsely-populated areas). While these designated areas have become less central to regional policy in a range of countries in recent years (as regional aids themselves have declined in significance), they remain an important element of the architecture of policy. Figure 4.1 shows their population coverage since 1980, using the same country groupings as in Section 3. The common trend is for there to have been reductions in population coverage over time, primarily in response to growing pressures from the State aid authorities and especially since the introduction of regional aid guidelines, with effect from 2000.

Aid area cutbacks for 2007-13 fall into three categories: those where the population reduction is at or near 50 percent (*Denmark, Luxembourg, the Netherlands, France and Ireland*); those with reductions of between 16 and 24 percent (*Austria, Belgium, the United Kingdom, Germany, Italy, Finland and Portugal*) and those with broadly stable coverage (*Norway, Sweden, Greece, Spain and Poland*). One consequence of the much-reduced population quotas in most countries is that, within broader problem regions, aid area designation has come to focus increasingly on locations where regional aid can be expected to have an impact. Regional aid maps in countries like the *Netherlands, France* and the *United Kingdom* are now very much focused on core growth zones within disadvantaged areas.

Table 5: The spatial orientation of regional policy in the EU15, Poland and Norway

Austria	<i>Land</i> responsibility. The stress on innovation/regional strengths suggests an urban focus. Rural and peripheral areas are dealt with by other funding streams (e.g. EAFRD at the European level). Reduced EU funding and lack of micro-zoning acts against lagging areas (though some <i>Länder</i> still favour them).
Belgium	In Flanders, the approach to regional aid is horizontal (with a single aid maximum). In Wallonia, a differentiated approach is favoured under regional policy while urban and rural zones ( <i>franc zones</i> ) have also been designated. Competitiveness poles and clusters have also recently been created.
Denmark	No regional aid. There is an all-region approach, but with extra funding for designated peripheral areas. Four of the six policy priorities (innovation, ICT, entrepreneurship, human resources) have a growth orientation (i.e. an urban focus); the other two are directed at tourism and peripheral areas.
Finland	There is a significant urban component to policy (goal of polycentric development, Centre of Expertise and Regional Centre programmes) which has been strengthened (new metropolitan - capital city - policy). However, weaker regions are also a focus of policy (in both funding and regional aid terms). In addition, there is clear spatial targeting to address rural, island and urban issues
France	The all-country approach is reflected in the state-region contracts, the competitiveness poles, and the wide spread of the regional aid map. Although the main focus is on regional potential, specific problem zones are designated (urban, rural, industrial restructuring, mountains, coastal areas etc).
Germany	The main target of the regional GA consists of structurally weak areas. Recently there have been debates on the geographical orientation of policy - whether specific policy approaches are needed for dynamic metropolitan areas and whether peripheral rural areas require special assistance.
Greece	The entire country is eligible for regional aid, with no significant differentiation in award rates until post 2010. The main policy focus is on national growth and development although reducing inter- and intra-regional differences are also policy objectives. New (2005) laws for rural areas and regional innovation poles; and support is also available for travel to and from the Greek islands
Ireland	The NDP strongly supports the implementation of the National Spatial Strategy (NSS). It recognises the significance of Dublin's international gateway status as well as the strategy for developing the other eight NSS gateways. The regional aid map favours the BMW region (particularly), as well as the South-East and small islands in the South-West. In addition, NDP social infrastructure and social inclusion policies see support targeted at disadvantaged urban, rural, <i>Gaeltacht</i> and island communities.
Italy	The new unitary regional policy has a whole country approach but with a very strong <i>Mezzogiorno</i> orientation (over 80 percent of funding is for the <i>Mezzogiorno</i> ). The regional aid map has still to be approved (aid in abeyance). New experimental fiscal exemptions for disadvantaged urban areas. New industrial innovation projects (growth poles).
Luxembourg	Regional aid limited to narrowly-defined designated aid areas.
Netherlands	<i>Peaks in the Delta</i> is an all-region approach, with transitional provisions and extra funding (plus a more broadly-based programme) in the north. Within <i>Peaks</i> programmes, the focus is on building upon regional strengths.
Portugal	Only the Lisbon area is excluded from the regional aid map. The Programme for Investment in Priority Infrastructure includes elements which favour urban regeneration and urban networks. The National Programme for Spatial Planning aims to strengthen territorial competitiveness, promote polycentric development and ensure territorial equity.
Spain	The coverage of the regional aid map is broadly unchanged at around three fifths of the national population. Apart from this measure (and the FCI which benefits 2000-06 Objective 1 regions). Policy tends to be national in coverage and sectoral in orientation.
Sweden	Policy has gradually changed from its traditional focus on weak and peripheral regions to a policy striving to achieve growth and development in all regions (including within cities). Recently, regional differences have increased, which has enhanced the weighting attached to ensuring strong regional resources and structures throughout the country. Nevertheless, traditional problem areas still receive special funding under the Structural Funds and benefit from more generous regional aid.
UK	The UK approach is an all-region one, operating through the Devolved Administrations in Scotland, Wales and Northern Ireland and the RDAs in England. The emphasis is on addressing the different factors of economic growth at the most appropriate spatial level. The stress on growth implies a particular focus on urban areas and city-regions, though there are also cross-region initiatives and also sub-regional measures (dealing with deprived areas).
Poland	In terms of spatial coverage, there is a clear statement of an all-Poland perspective. At the same time, some focus on struggling regions is maintained. The key objective is to make fuller use of the potential of large metropolitan areas, but tied to the objective of strengthening links between growth poles and the towns and rural areas which surround them. In the NDP, there are specific goals relating to metropolitan development and the development of rural, marginal, areas.
Norway	There is a strong focus on the districts, peripheral and sparsely-populated municipalities. Support is differentiated so that most flows to the most disadvantaged areas. There is also a focus on small and medium-sized cities and on Norway's international competitiveness. Five challenges in the 2006 White Paper are: to release wealth creation in all parts of the country; to provide access to jobs and services where people live; to create optimism in the most vulnerable areas; to make small towns attractive places to live and work; and to make medium-sized cities attractive alternatives to large cities.

Figure 4.1: Designated area population coverage in the EU15 (1980-2007/13)

	1980	1985	1990	1995	2000-06	2007-13
Austria				35.2	27.5	22.5
Denmark	27.0	24.0	20.7	19.9	17.1	8.6
Luxembourg	100.0	100.0	100.0	79.7	31.9	16.0
Netherlands	27.4	25.0	19.9	17.3	15.0	7.5
Belgium	39.5	33.1	33.1	35.0	30.9	25.9
France	38.2	39.0	41.9	40.9	34.0	18.4
Ireland	100.0	100.0	100.0	100.0	100.0	50.0
UK	45.5	37.8	37.8	36.8	30.7	23.9
Germany (west/total)	36.0	35.0	34.8	22.0/38.2	17.7/34.9	11.9/29.6
Italy	35.6	35.6	35.6	48.8	43.6	34.1
Finland				41.6	42.3	33.0
Norway			33.0	25.0	26.0	27.5
Sweden				18.5	15.9	15.3
Greece		100.0	100.0	100.0	100.0	100.0
Portugal			100.0	100.0	100.0	76.7
Spain			58.6	58.6	60.7	59.6
Poland					100.0	100.0

Note: (i) Except for Norway (where the figures are from 1990), the data relate only to the period of EU membership of each country; (ii) Transitional provisions apply in 2007-08 in some countries.

Source: The 1980-2000 figures are drawn from the 1999 EoRPA overview. The 2007-13 data are from EoRPA paper 06/04.

With respect to funding flows, these have traditionally favoured the designated aid areas, particularly in early policy phases when regional policy was often synonymous with the provision of regional aid. More recently, most countries have adopted an all-region approach, at least with respect to some aspects of policy (see Table 5). A separate EoRPA paper (EoRPA Paper 07/5) considers the impact of this broader spatial focus on regional policy funding flows. The aim here is to concentrate on recent changes to the funding allocation mechanisms which impact on such flows.

In *Denmark*, following the introduction of a new system of sub-national government and a new Business Development Act, 40 percent of regional policy funding is distributed per capita, but the other 60 percent relates to problem indicators - share of population in designated peripheral areas (45 percent), share of unemployed population (10 percent) and share of persons with no post-school education (5 percent). As a result, North Jutland, one of the more disadvantaged areas, receives over one quarter of the regional policy budget while holding just 10 percent of the national population. This outcome is not markedly different from the previous programming period. In *Norway*, following a change of government in 2005, there has been a shift in funding towards the peripheral districts, mainly through increasing municipality funding flows, but also by expanding the coverage of the maximum rate areas and increasing regional aid budgets. The three northernmost counties, holding just over 10 percent of the national population, continue to receive around two-fifths of the regional aid budget. In contrast, in the *Netherlands*, the *Peaks in the Delta* philosophy aims to shift funding from the north to an all-region basis, with allocations dependent on the percentage of regionally-exporting jobs in each region. However, following parliamentary interventions, transitional provisions have ensured that

the north, with some 10 percent of the national population, will receive around 27 percent of the *Peaks* budget over the 2007-10 period. Finally, in *Germany*, given a requirement to reduce the GA budget, the decision was taken to maintain the new/old *Länder* split to avoid a situation where old *Länder* ceased to benefit from regional GA support.

More generally, the new EU programming period obviously impacts on funding flows, especially in those countries where such funding is a core component of national regional policy efforts. As in the above examples, the evidence is of a broad resistance to major shifts in allocations between regions, with compensatory mechanisms and/or transitional provisions in many countries.

Finally with respect to Table 5, there is evidence of a changing approach to geographical selectivity within regional policies, with the identification of different territorial types on which to focus support - in particular urban areas (not least in the context of the growth and competitiveness agenda) but also, in some countries, rural or peripheral areas, mountainous zones or island and coastal communities. At the same time, and generally in the context of regional programming, there has been a shift from concentrating policy responses on region-specific problems and towards areas of development potential.

For some time, now, the regional policy focus on urban areas has been growing. Such areas are increasingly seen as the motors of regional development, with growth impulses for the surrounding regional economy. Recent changes divide into two main categories. First, there have been a range of innovation-oriented initiatives which have a predominantly urban impact. Into this category fall new innovation measures in *Austria*, the designation of competitiveness poles in *France* and *Belgium* (Wallonia), the renewal of the Centre of Expertise programme in *Finland*, the introduction of a similarly-named programme in *Norway*, the designation of regional innovation poles in *Greece*, the establishment of new industrial innovation projects in *Italy*, the urban orientation of most of the regional *Peaks* in the *Netherlands*, the city-region concept in the *United Kingdom* and the focus on the potential of large metropolitan areas in *Poland* (tied also to the objective of strengthening links with surrounding towns and rural areas).

Second, urban areas have been supported as a way of strengthening the territorial structure of a number of countries. In *Finland*, *Norway* and *Sweden*, the maintenance of service provision and retention of settlement structures are important regional policy goals. *Finland* has recently renewed the Regional Centre programme while, in *Norway*, the 2006 White Paper highlights the challenge of making small towns attractive places to live and work and medium-sized cities attractive alternatives to large cities. In *Ireland*, too, the 2007-13 National Development Plan emphasises the economic development role of key towns and cities (the regional gateways and hubs). In such countries, the underlying goal is to support territorial cohesion via polycentric development, which is also a broader spatial policy objective in *Austria*. More generally, regional policy is being more closely coordinated with national spatial strategies across a range of countries, bringing urban issues more to the fore. Also in *Germany* there has been a debate about whether specific policy approaches are required for dynamic metropolitan areas.

While urban areas have become more prominent within the regional policies of many countries, the challenges facing rural areas continue to be highlighted in some, reflecting a concern that rural economies might end up separated from regional growth impulses. This is clearly the case in the Nordic area. The new *Danish* regional policy explicitly targets peripheral areas, such areas are now given even more priority in *Norway*, and in *Finland* special rural and island programmes have been renewed. In *Sweden*, too, the emphasis on well-functioning labour markets means that rural and coastal areas are included within the policy remit. *France* is also interesting for its wide range of designated zones, covering rural, mountainous and coastal areas as well as urban centres and regional aid areas. An important development in France has been the move towards designating areas of potential – competitiveness poles in an urban context and rural excellence centres within rural areas. It is also of note that, in *Germany*, the recent period has seen intensive discussions about the extent to which peripheral rural areas might require special assistance. Finally in *Poland*, the development of marginal rural areas is an important part of the policy mix, not least given the special programme for the development of eastern Poland.

One last point is that territorial typologies are growing in complexity. Many countries recognise that standard administrative boundaries are not always appropriate from a policy perspective. This has led to wide-ranging examinations of roles and responsibilities at the sub-national level (especially in the *Nordic* countries) and to the formation of different spatial groupings for different policy purposes. This is a particularly important issue in the *United Kingdom* where the core aim of regional policy is to improve growth/productivity factors. This is recognised to require very different levels and types of spatial intervention, with policy issues passed down to sub-regional and/or local levels or up to the national level as appropriate.

#### *4.2.4 Changes in the administration of policy*

Approaches to the administration of regional policy have evolved considerably across the EU in recent years. Changing approaches take on different inflections in different countries. Specific cultural, social and economic factors, existing administrative arrangements, perceptions of the regional challenge and, also, issues related to the administration of EU programmes produce distinctive national responses. Overall, however, a number of basic trends can be identified.

The first concerns the reworking of policy delivery responsibilities across administrative scales (for a more detailed discussion, see Section 6.1). This includes processes of decentralisation and territorialisation of public policies. Traditional top-down redistributive approaches to regional policy, associated with the award of regional aid by central governments, have gradually been supplanted by a new regional policy paradigm that stresses the utilisation of regional factors of growth, particularly through the use of regional development programmes. Such developments have been accompanied by the progressive upgrading of the regional level in the policy process. In some cases, such as *Spain*, *Belgium*, the *United Kingdom* or *France*, administrative or political regionalisation is apparent, with state competences for policy delivery being decentralised or devolved to sub-national tiers. Moves have also been apparent in *Finland* and, in a different way, in the *Netherlands* to increase regional inputs into administering regional policy and deciding how

funding is allocated. In some countries, processes of administrative regionalisation are closely related to the management and implementation of the Structural Funds. This applies in particular to the *EU12*, where Structural Funds are a vital source of funding for regional development. In *Poland*, the role of regional self-governments as managing authorities in 2007-13 will strengthen their input into policy administration, albeit within a centrally-determined framework. In other countries, such as *Ireland* and *Portugal*, Cohesion policy has similarly been an influential factor in (albeit limited) moves towards policy regionalisation.

Other dynamics in the reallocation of regional policy responsibilities can be identified. Targeting different factors of economic growth at the appropriate spatial level has prompted the redrawing of administrative boundaries, the resetting of organisational relationships and the reorganisation of capacities at sub-national levels. An important objective here has been to ensure that delivery frameworks have sufficient flexibility and capacity to influence different economic growth factors. Various options are being pursued, including the redrawing of administrative borders to create larger administrative units in *Denmark* (and being considered also in *Sweden*, *Norway* and *Finland*) and increasing the budgetary flexibility and policy overview of regional administrative bodies, as with the RDAs in *England*.

Notwithstanding such developments, national governments continue to play an active part in regional policy administration. Regional policies influence macroeconomic conditions, socio-economic cohesion and even political stability. Moreover, in many cases, central ministries, departments and agencies remain important sponsors of regional development, often providing the bulk of policy funding. Across the EU, the role of the state in setting an overarching framework for regional development interventions is well established and, in some countries, recent processes of reorganisation at the central level have sought to strengthen this coordination role. For instance, in *England*, *Germany*, *Finland* and *France*, regional development responsibilities have been reorganised at the national level with the aim of developing more coherent, integrated approaches to policy administration. A strengthened national government role can ensure that funding is allocated according to specific national regional policy objectives (as in the *Netherlands*) or towards specific territories (as under the new unitary regional policy in *Italy*). In some cases (such as the *EU12*), centrally-controlled interventions may be the most efficient way of integrating a plethora of development programmes and schemes, limiting the scope for fragmentation and complexity. This can also be the case where large-scale Structural Funds programmes are testing regional administrative systems (e.g. *Greece*).

A second broad trend relates to the coordination of regional policy delivery across and between administrative levels (discussed in detail in Section 6.2). Coordination has become a crucial issue for regional policy administration as local, regional, national and EU institutions often all have a role to play in policy delivery. At national level, more sophisticated conceptualisations of the regional policy challenge are drawing in a broader range of ministries, departments and agencies into different coordination mechanisms. In some countries, dedicated coordination structures play a crucial role at the national level. This has long been the case, for instance, with respect to the activities of ÖROK in *Austria*, DIACT in *France*, and the GA Coordination Committee in *Germany*. More recent

developments include the setting up of a new Cabinet sub-committee in *Norway* and the national committees being established in *Italy* to coordinate the new unitary regional policy. In countries such as *Greece* and *Portugal*, the management of Structural Funds programmes has also prompted increased coordination at the central level. A related trend has seen formal or informal agreements and shared guidelines and targets increasingly used to coordinate the regional outputs of various ministries and departments. There is, for instance, a general commitment to take regional development concerns into account when developing certain sectoral policies in *Sweden* and *Finland*, while more detailed and formal partnership agreements (with associated guidelines and targets) operate, for example, in the *United Kingdom* and *Denmark*. Finally, the formulation and implementation of new national regional policy programmes and strategies can provide the impetus and framework for greater central coordination (e.g. around the NDP and NSS in *Ireland* or *Peaks in the Delta* in the *Netherlands*).

A variety of coordination mechanisms are evolving at the regional level. The process of devising and implementing regional programmes provides an important coordination mechanism in several regions (e.g. strategic regional programming in *Finland*, regional economic strategies in *England*). This often takes place alongside the creation of regional partnership bodies (e.g. regional growth fora in *Denmark*) or networks (e.g. regional partnerships in *Sweden*). The partnership principle promoted in Structural Funds' programming has been influential in this respect. The process of administering EU programmes can also prompt increased coordination at the regional level by providing fresh opportunities to bring regional actors together to discuss strategic issues related to the programmes (e.g. *Austria*, *EU12*) and/or their alignment with domestic programmes (e.g. *France*, *United Kingdom*).

Mechanisms to coordinate regional policy between the central and regional levels are also growing in importance. These vary according to the role allocated to the regional level in policymaking and implementation. In *unitary* systems (such as *England* and *Finland*), the clarity and coherence of links between the central funds provided to regions and regional policy outcomes is clearly a coordination priority and can involve the scrutiny of regional plans through nationally-set frameworks or guidelines. In *devolving or decentralising unitary systems*, coordination mechanisms may seek to ensure that national-level policy decisions take regional priorities into account. This can be accomplished through the use of national-regional agreements or contracts with varying levels of formality and legal status (e.g. *France*, *Denmark*, *Poland*). Finally, in *federalised or regionalised* systems the purpose of coordination is to ensure that regional policies, which are mostly the responsibility of the regional level, do not conflict with national development goals. This can be achieved by directly involving the national level in the planning and/or financing of regional development initiatives (e.g. *Austria* and *Spain*) or through joint financing between federal and regional levels (e.g. the regional GA in *Germany*).

### 4.3 Comparative points

This section has identified four main themes which arise out of the country changes which have taken place since the start of 2006. First, there have been some significant developments regarding the nature of regional policy and the types of policy instrument

utilised. In *Denmark* and the *Netherlands*, new all-region, programme-based approaches have been introduced. There have also been important changes to the framework of policy in Italy and Ireland, linked to EU Cohesion policy developments. In *Italy*, a new programme-based domestic regional policy has been created to operate alongside EU Cohesion policy interventions and ensure that the new unified regional policy (combining domestic and EU-funded programmes) retains a significant territorial development dimension. In *Ireland*, reduced EU funding has meant that the NDP is now entirely domestically funded; in future, EU programmes will only play a complementary role, focusing on niche areas of investment. In contrast, EU programmes continue to be at the core of policy in countries like *Poland*, *Greece*, *Portugal* and *Spain* and have also become more aligned with domestic regional policy in *Austria*, *Finland* and *Sweden*.

In addition to these programme-based developments, there have been some important policy changes in *France* (where new and more strategically-oriented state-region project contracts have been introduced), the *United Kingdom* (where, as the coverage of regional policy has broadened, attention has focused increasingly on which policy instruments should apply at which level, but again in the context of more integrated strategy development in the regions) and *Norway* (where there has been a shift back towards traditional policy instruments following a phase when the policy emphasis had been on providing appropriate framework conditions for economic development). Across the countries under review, the clear trend has been for the policy weight attached to regional programming to increase while that relating to regional aid has been in decline. The former development reflects EU influences, the growing policy stress on regional growth and competitiveness and broader decentralisation trends; the latter is due to State aid controls (both from the State aid authorities and domestically), budgetary constraints and broader moves away from investment- and towards innovation-oriented support.

Second, the new policy phase has seen a reformulation of policy objectives in countries like *Austria*, *Greece*, *Ireland*, *Italy*, *Portugal* and *Poland*. In all, considerable priority continues to be attached to competitiveness goals in line with Lisbon priorities, the catch-up aspirations of Cohesion Fund countries and broader globalisation pressures. Competitiveness objectives have also played a prominent role in the domestic regional policies of a range of countries in recent years, in particular, *Denmark*, *Finland*, *France*, the *Netherlands*, *Sweden*, the *United Kingdom* and *Norway*. On the other hand, apart from the *Netherlands*, there is nearly everywhere an equity element to the broader goals of regional policy, even if it tends to have a lower priority than regional competitiveness. Interestingly, there are some recent examples where the policy pendulum has swung back and the equity component of policy has been enhanced (as in *Denmark*, *Norway* and *Italy*, for instance). There is also a desire in a range of countries (including the *Nordic* group, *Austria* and *Ireland*) for territorial balance to be given due weight, supporting polycentric development and an appropriate urban hierarchy. Finally, it is of note that the goal of sustainable development appears to be moving up the policy priorities, including in *France*, *Italy* and *Portugal*.

Third, there have been a number of changes to the spatial orientation of policy. For instance, the traditional policy focus on designated regional aid areas is weakening. In response to DG Competition pressures, there have been significant cutbacks in the



population coverage of such areas for the 2007-13 period, especially in *Denmark, Luxembourg, the Netherlands, France and Ireland*. Indeed, only *Norway, Sweden, Greece, Spain and Poland* emerged from the re-designation process with their regional aid maps relatively unscathed. In response to increasingly limited population coverage, designated areas in countries like *France, the Netherlands and the United Kingdom* are now very much focused on core growth zones within disadvantaged areas. As regards funding flows, a new *Danish* system for distributing regional policy funds has not made very much difference in terms of regional allocations. In contrast, recent changes in *Norway* favour the traditional problem regions, while in the *Netherlands* there has been a shift away from the north, albeit with significant transitional provisions. More generally, and this applies also to EU funding flows, the evidence is of broad resistance to major shifts in regional allocations, with compensatory mechanisms applying in many countries. Finally, as regards particular territorial types, the regional policy focus on urban areas has been growing in a range of countries in line with the increasing weight attached to innovation-measures (including competitiveness poles in *France and Wallonia*, Centres of Expertise programmes in *Finland and Norway*, and a range of similar developments in *Austria, Greece, Italy, the Netherlands, the United Kingdom and Poland*). Support for urban areas is also seen as a way of strengthening the territorial structure in the *Nordic* countries as well as in *Ireland and Austria*. At the same time, the challenges facing rural areas have been explicitly targeted in countries like *Denmark, Norway, Finland, Sweden and France*. In *Germany*, too, there have been recent intensive discussions about whether rural areas require special assistance while, in *Poland*, significant policy weight has been attached to the new special programme for eastern Poland. One last point is that territorial typologies are becoming increasingly complex, leading to detailed reviews of development roles and responsibilities at the sub-national level in the *Nordic* countries and a *UK* focus on considering which interventions are appropriate at which policy levels.

Such considerations lead on to the fourth theme - changes in the administration of regional policy. A number of recent developments and broader trends have been identified. One is the progressive upgrading of the regional level within regional policy, part of more general decentralisation processes in countries such as *Spain, Belgium, the United Kingdom and France*, but also involving more recent regional policy developments in *Finland and the Netherlands* and EU programming pressures in *Poland and the EU12* as well as *Ireland and Portugal*. Another is the review of regional-level responsibilities (including regional development responsibilities), often linked to pressures to change the geography of sub-national tiers of governance (as particularly in the *Nordic* countries but also in *England*). At the same time, the national-level role in regional policy administration remains strong, with more integration of policy responsibilities following ministry reorganisations in *Finland, Sweden, Germany and the UK*, enhanced national inputs in determining policy objectives in countries such as the *Netherlands and Italy* and more central coordination in the context of EU programmes in *Poland, Portugal and Greece*. There have also been a range of developments relating to the coordination of policy: with enhanced *national-level* coordination via domestic initiatives in the *Nordic* countries, *Italy, the United Kingdom and Ireland* and through EU programming in *Greece, Portugal and Poland*; more *regional-level* coordination in *Denmark, Finland, Sweden, France and the United Kingdom* (not least in the context of regional programming and strategy development) as well as in the

*EU12* and other countries where the Structural Funds play an important policy role; and increased *national-regional* coordination in countries such as *Finland, England, France, Denmark* and *Poland* as well as *Austria* and *Germany*, part of the more general trend to improve the integration of national- and regional-level policy priorities.

## 5. THE COMPONENTS OF REGIONAL POLICY

This section moves from the general overview of policy change provided so far to a more detailed review of change with respect to the main components of policy - regional incentives and support for the business environment.

### 5.1 Regional incentives

With the application of new regional aid guidelines from the start of 2007, the recent past has been a very active period for regional aid policy. All countries have had to review their regional aid maps in line with the new guidelines and have their proposals approved by the Commission.<sup>19</sup> In addition, new regional aid regimes have been developed and introduced, the previous regional incentives having lapsed along with the 2000-06 maps. In a number of countries, the opportunity has been taken to review and update the regional aid package via new aid legislation and/or regulations. These various developments are highlighted in Table 6 and discussed in more detail in the next section. A final section draws together the main comparative points to emerge and discusses the key factors underlying the changes which have taken place.

#### 5.1.1 A country-by-country review of change

In *Austria*, regional policy is seen as a horizontal policy field which lacks explicit instruments. There is only one federally-funded regional aid, the ERP soft loan scheme, which provides (relatively low-key) support for technology investments in structurally-underdeveloped areas (i.e. those designated for regional aid purposes). In line with the regional aid guidelines, eligible areas have narrowed in coverage to reflect a cutback in population coverage from 27.5 percent to 22.5 percent. However, with this cutback spread across all the *Länder*, the broad look of the map has not significantly altered. Award ceilings have also been reduced - from (in net grant equivalent terms) 35 percent and 30 percent in Burgenland and from 20 percent to 12.5 percent elsewhere in the 2000-06 designated areas to (in gross grant equivalent terms) 30 percent (2007-10) and 20 percent (2011-13) in Burgenland and 15 percent in most of the other 2007-13 designated aid areas (but 20 percent in parts of the Waldviertel and Weinviertel and 16 percent in part of the Mühlviertel (albeit only for 2007-10)).

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<sup>19</sup> See Guidelines on National Regional Aid for 2007-13, OJEU No C 54 of 4 March 2006.

Table 6: Recent regional incentive changes (2006-07)

Austria	Reduced aid area coverage (from 27.5 to 22.5 percent of the national population) and lower aid ceilings. Since 2000, ERP loans have been the sole federal-level regional aid.
Belgium	Reduced aid area coverage (30.9 to 25.9 percent) and reduced award maxima. Wallonia has a spatial approach (Hainaut is a statistical effect region) but Flanders' approach is more horizontal. In Flanders, regional aid takes the form of a budget-limited call-for-proposals for investment of up to €8 mn (for SMEs) and a highly selective system for 'strategic' projects (large firms). In Wallonia, extra support was made available in 2006 for SMEs and in specific zones ( <i>zone franche</i> ) as well as in newly-established competitiveness poles. The new Wallonian approach is more selective compared to the previous automatic award system.
Denmark	No regional incentives since 1991. Peripheral areas designated. Used for programme-based support (and for determining regional allocations under the regional policy budget).
Finland	New Aid to Business Act in 2007 has merged four regional aids into two. Less funding; lower aid ceilings (in response to the regional aid guidelines); a more focused approach to aid (aid area population coverage cut from 42.3 to 33 percent); more restrictive large firm support; and more award decisions taken regionally.
France	New PAT legislation has seen the PAT (now covering services as well as industry) continue to focus on nationally important projects with structural impacts. There is more selectivity (reduced budgets), lower award ceilings (under the regional aid guidelines) and more narrowly defined aid areas (with population coverage down from 34 to 18.4 percent). A new PAT for R&D and innovation has been introduced. Scope for regional aid provision at the regional level.
Germany	Budget cutbacks have led to lower aid ceilings at the <i>Land</i> level. GA map coverage down from 34.9 to 28.14 percent of the national population. GA ceilings have fallen in most aid areas in 2007-13, especially for large firms. The <i>Investitionszulage</i> , a fiscal aid available only in the new <i>Länder</i> , was extended for 2007-11.
Greece	New Development Law in preparation (to reflect the new regional aid guidelines). Although the whole country remains eligible for support, aid ceilings have been significantly reduced. Post 2010, the lower ceilings will start to impact on awards made under the Development Law.
Ireland	Regional aid ceilings much reduced, with implications for FDI policy. No regional aid available now in Dublin and the Mid-East (population coverage of aid areas down from 100 to 50 percent). Awards depend on quality of employment and location (with regional gateways favoured).
Italy	Regional aid map (and associated regional aid) still to be approved (population coverage cut from 43.6 to 34.1 percent, most of this in the <i>Mezzogiorno</i> ). Future of Law 488/1992 uncertain. Aid may become more selective and targeted (e.g. support for industrial innovation projects). Tax credit introduced in 2000 also favoured. Following constitutional reform, regional incentives are now mainly a regional responsibility.
Luxembourg	More focused regional aid map (population coverage halved to 16 percent).
Netherlands	More focused aid areas (population coverage halved to 7.5 percent) and lower aid maxima. Doubts about the future of the centralised IPR but it has now been allocated a budget. The use of regional aid in the Netherlands is essentially defensive (concern with cross-border competition).
Portugal	In 2006, the basic aid ceiling for investment in fixed assets was lowered from 30 percent to 25 percent and award supplements were added for job creation. Also, a separate SIME-internationalisation scheme was set up. From 2007, the Lisbon area is no longer eligible for regional aid and aid ceilings are also significantly lower. Aid targeting expected to increase.
Spain	Minor change to aid area coverage, but cuts in aid ceilings more marked (though they do not yet impact on the aid ceilings under the Regional Investment Grant).
Sweden	Slight reduction in the aid area population quota (down from 15.9 to 15.3 percent). However, the exclusion of three major cities in the north from the aid area map allowed other areas to be designated. Award ceilings for large firms reduced. No further changes made to the available aids following on from the amendments made in July 2005 (see last year's review).
UK	Significant cut in aid area coverage (down from 30.7 to 23.9 percent of the national population). New map fits within the old map. Significant reductions in aid ceilings. SFIE in England continues to support capital investment, training and productivity growth. Broader business support simplification programme. In Scotland, RSA is being consolidated with R&D support (single application form etc.)
Poland	Whole country remains eligible for support, but with aid ceilings falling over time. The traditional focus has been on tax exemptions (as in the system of Special Economic Zones). However, under EU programmes, investment grants are now available, albeit with limited regional differentiation.
Norway	Re-introduction of the social security concession in the least-populated areas from the start of 2007. Regional aid map for 2007-13 also approved, covering areas of low population density (27.5 percent population coverage, up from 26 percent). Areas eligible for the maximum rate of award extended (combination of previous zones A and B). Budget shift towards regional aid.

In *Belgium*, regional incentives constitute the main instrument of regional policy in both Flanders and Wallonia, though a different approach is taken in each region. In Flanders, there is a horizontal orientation to policy, so much so that the Flemish authorities would have been content to operate in the 2007-13 period without a regional aid map.<sup>20</sup> Post 2007, the system is being streamlined around a single aid maximum (10 percent), without any “bonuses” in future for SMEs (but with SMEs now funded under a separate call-for-proposals scheme). Regional aid funding (under the Hermes Fund) amounted to €233 million in 2006 compared to €31 million for business environment support. One third of the regional aid budget went to strategic projects (mainly from large firms). Looking to the 2007-13 period, the aim is to make support more transparent and also to increase selectivity (through budget limits and by introducing scoring minima). The intention is to support a higher number of firms, with lower levels of funding for each firm.

In contrast to Flanders, a territorial approach to the provision of investment aid continues to be favoured in Wallonia. The Hainaut region (a statistical effect region which holds 12.4 percent of the national population – almost half of the available population quota for Belgium) is eligible for aid up to 30 percent of eligible investment until 2010, declining to 20 percent for 2011-13; elsewhere in Wallonia, the designated aid area ceiling is 15 percent.<sup>21</sup> This compares with a 21 percent ceiling in 2006 under the previous legislation, which had been due to fall to 20 percent in 2007. The award rate depends on the nature of the investment programme, its innovative character and the extent to which it represent a priority; for instance, being in a disadvantaged zone (*franc zone*) and/or being linked to a competitiveness pole. Within the aid ceiling, the award for large projects is generally, €75,000 per job created. In recent years awards have become more selective.

In *Denmark*, no regional incentives have been available since 1991. Even so, new aid areas have been designated. These peripheral areas hold 8.6 percent of the national population (half of the previous population coverage) and benefit from programme-based support. Although there are no regional aids, the designated areas are favoured in the allocation of the regional policy budget (as discussed in Section 4.2.3).

In *Finland*, new business aid legislation in 2007 has seen the previous four regional aids reduced to two. The main impetus behind this has been to simplify the system, make it more efficient and improve its impact. A new business development aid merges the previously separate investment aid and SME development aid and allows a single application form to be used to gain support for investment-related and other business development activities (e.g. related to internationalisation). Development aid for the business environment has similarly been made more flexible. Aid area coverage has been reduced from over 40 percent to 33 percent of the national population but the main focus of support remains as before (in the east and north). There have, however, been some significant reductions in award ceilings, with aid maxima for large projects, for instance, falling from

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<sup>20</sup> As envisaged in the early regional aid guideline proposals of DG Competition (see EoRPA Paper 06/4). In the event, map population coverage in Flanders fell by 30 percent, compared to a 17.2 percent cut for Belgium as a whole.

<sup>21</sup> All ceilings in this section are for large firms. Unless otherwise stated, medium-sized firms add another 10 percentage points to the ceiling and small firms 20 percentage points.

30 percent to 15 percent in Aid Area I (in the east) and from 25 percent to 10 percent in Aid Area II (in the north). In 2006, regional aid expenditure was €149 million, with more than 90 percent awarded to SMEs. In future, there will be much less co-finance from the Structural Funds and more awards will be decided at the regional level (in the T&E centres); project decisions taken centrally by the Ministry of Trade and Industry are expected to fall by two-thirds.

In *France*, the regional policy grant (*Prime d'aménagement du territoire*, PAT) is an investment grant administered by the CIALA (*Comité interministériel d'aide à la localisation des activités*). It has a budget is €30.7 million and, in the 2007-13 period, will concentrate on major strategic projects in the designated areas. The new map is very different from the old one – in part, due to the almost halving of population coverage (to 18.4 percent) but also because of the decision to decentralise the designation process, which resulted in what have been termed designated “ribbons”. The map apart, two major changes have been made to the PAT. First, the previously separate scheme for the service sector has been discontinued; the service sector has now been integrated within the main PAT (*industrie et services*) scheme. Second, a new PAT scheme for R&D and innovation has been established, which is closely linked to the new competitiveness poles. In addition, the relationship of PAT awards to employment has been weakened, with funding levels for extension projects no longer calculated in relation to jobs created. For new firms, the rate of award has increased from €11,000 to €15,000 per job created, with support targeted at major projects. Overall aid maxima for large projects are 15 percent or 10 percent, depending on location. For innovation projects, the maximum is 15 percent for large firms. In the new period, selectivity is expected to increase, with particular attention paid to the effect of, and need for, aid. Finally, there is now scope for regional aid provision at the regional level; however, this has not been taken forward to any significant extent.

In *Germany*, regional aid is coordinated by the GA. The main recent change relates to the introduction of a new regional aid map and associated aid ceilings. The population quota fell from 34.9 percent to 29.6 percent under the regional aid guidelines, but the designated (Article 87(3)(a) and (c)) areas hold just 28.14 percent of the national population, following the decision to include only those parts of the statistical effect region of Lüneburg which were justified by the national ranking of labour market regions. The new map is broadly similar to, if less extensive than, the old one, with A areas covering the new *Länder* (excluding Berlin) and C areas targeting structurally-weak rural and industrial restructuring regions in the old *Länder* as well as the eastern Bayern areas bordering the Czech Republic (and also part of Berlin). Rate maxima have in general been reduced: from 35 percent (or 28 percent) net grant equivalent for large firms in the A areas to 30 percent gross grant equivalent; and from 18 percent net grant equivalent for large firms in the C areas to 15 percent gross grant equivalent in most areas (but 20 percent, 16 percent or 10 percent in some). The decision to cut the regional GA budget by €100 million will obviously have an impact on regional aid expenditure, though the federal parliament subsequently reduced the budget cut by half.

In *Greece*, investment aid under the Development Law is available across the whole country. National rate maxima for large projects are currently 20 percent in Zone A (primarily Attiki and Thessaloniki), 30 percent in Zone B (mainly covering areas through the

centre of the country (but also the Ionian Sea islands) and 40 percent in the rest of the country (on the periphery). The new regional aid guideline ceilings are 40 percent or 30 percent depending on location over the 2007-10 period and thus do not, at present, impact on the national maxima. However, these maxima will have to be revisited post 2010 when, in a few areas, the guideline ceilings fall to 15 percent.

In *Ireland*, the regional aid map covered the entire country over the 2000-06 period, with rate ceilings of 40 percent in the BMW region, 17.5 percent in the Dublin area and reducing elsewhere from 40 percent in 2000 to 18 or 20 percent for 2004-06. In contrast, the 2007-13 period sees the BMW maxima for large projects reduced to 30 percent for 2007-10 and 15 percent for 2011-13, while eligible areas in the South-East face a 10 percent ceiling. Both the Dublin region and the Mid-East are now excluded from eligibility, while the Mid-West and parts of the South-West are eligible only with respect to SMEs. These represent very significant reductions in both designated area coverage and award maxima. Actual awards (and the availability of particular forms of support) are determined by negotiation and are mainly dependent on the quality of employment created and location (with regional gateway locations favoured). Awards can take the form of capital grants, R&D grants, employment grants and training grants.

In *Italy*, the new regional aid map is still awaiting European Commission approval. Outside the *Mezzogiorno*, it involves very significant cutbacks in population coverage; Article 87(3)(c) coverage in the Centre-North extends to just 1 percent of the national population. For the next policy period, the future of the main regional aid (under Law 488/1992) is uncertain. Despite reforms to the scheme in 2005, dissatisfaction remains about its performance. It may be replaced by, on the one hand, more selective and targeted aid (such as the industrial innovation projects scheme, discussed later) and, on the other, more general fiscal relief in the form of a tax credit first introduced in 2000. Support under Law 488/1992 totalled €5092 million under a 2006 call for proposals (there was no call in 2005), with three-quarters flowing to the *Mezzogiorno*; tax credit support amounted to €746 million in 2006 in the *Mezzogiorno* and €916 million in 2005. Another development to note is that, following constitutional reform, regional incentives are now primarily the responsibility of regional authorities. However, the extent to which regional-level support will be developed in the new policy period remains to be seen.

In *Luxembourg*, the population coverage of the regional aid map has been halved - to 16 percent of the national population. As before, the main designated areas are in the south (70 percent of the eligible population), with the remainder split evenly between the east and the north. The aid maximum remains at 10 percent (but now in gross terms). Over the 2004-06 period, between 14 and 20 awards were made each year, involving just under €17 million aid per annum on average. During this period, most of the supported projects were in the south, the region facing the most significant structural change.

In the *Netherlands*, the population coverage of the regional aid areas was also halved - to 7.5 percent of the national population. The designated areas focus even more than before on the north and on South Limburg (with areas in Twente and Flevoland de-designated). There is a particular concentration on vulnerable border areas facing competitive pressures from neighbouring countries. Within such areas, the emphasis is on core centres where the

award of regional aid is likely to have a positive impact (as demonstrated by past receipt of Investment Premium (IPR) support). In recent years, the IPR has operated in two forms: a decentralised version for small investment projects in the north and a centralised scheme for larger investment projects throughout the designated aid areas. There has been some debate surrounding the continuation of the centralised IPR. The view of the 2004 intergovernmental (IBO) review was that the IPR budget should be transferred to *Peaks in the Delta*, but the Dutch Cabinet was more circumspect and, following parliamentary representations, a future budget has now been made available (of around €16 million for the next three years). This compares with average spending of over €25 million per annum between 2003 and 2006, mostly in the north. In future, the maximum award for large projects will be 15 percent gross in parts of the north (holding just under two-fifths of the designated area population) and 10 percent gross in the remaining designated areas; previous rate maxima were higher, ranging from 20 percent to 10 percent net grant equivalent.

In *Portugal*, the Lisbon area, holding just under one-quarter of the national population, no longer falls within the aid area map. In addition, award ceilings have been reduced. For 2000-06, aid maxima for large projects (in net grant equivalent terms) were 62 percent for the Azores and Madeira, 50 percent for Centro and Alentejo and 40 percent for Norte and the Algarve, while ceilings in the Lisboa e Vale de Tejo NUTS II region were 10 percent for Grande Lisboa and (by 2004) 20 percent for the rest of the area. In contrast, the 2007-10 ceilings (gross) are 52 percent for the Azores and Madeira, 40, 36.5 or 30 percent for Centro, Alentejo, Norte and the Algarve and 15 percent for eligible parts of the Grande Lisboa and Setubal areas (other parts face a 10 percent ceiling for the transitional 2007-08 period). Still lower ceilings apply in many of these areas in 2011-13. The main incentive is the SIME, which mainly takes the form of a repayable grant, but with a 'completion premium' under which part of the grant is not reclaimed if certain conditions are met. Changes to the SIME in 2006 reduced the award rate in respect of fixed investment from 30 percent to 25 percent and introduced award supplements (of up to 5 percent) for job creation. In both 2004 and 2005, more than 200 awards were made, involving aid of just over €200 million per annum and average awards in excess of 30 percent. Also in 2006, those parts of the SIME relating to innovation and to internationalisation were separated out into distinct schemes. For 2007-13, the expectation is that aid budgets will fall, award rates will be reduced, aid targeting will increase, there will be preferential support for SMEs and aid administration will be simplified.

In *Spain*, aid area change has been limited. There was only a minor reduction in population coverage (from 60.7 percent of the national population to 59.6 percent) and only a small area (centred on Valencia) lost its designated status. However, even ignoring the switch from net to gross grant equivalents, award maxima for large projects have been cut significantly - from 50 and 40 percent to 40 and 30 percent in full Article 87(3)(a) areas; from 40 percent to 30 percent (2007-10) to 20 percent (2011-13) in statistical effect areas; from 35-40 percent to 25-30 percent (2007-10) to 10-20 percent (2011-13) in economic development areas; and from 20 percent (30 percent in Teruel) to 10-15 percent in Article 87(3)(c) areas. On the other hand, these reductions are not seen as problematic since they do not in general impact on the national award maxima under the Regional Investment

Grant. In 2005-06, average awards were just over 10 percent, involving expenditure of €473 million in 2005 and €363 million in 2006. Of more concern to the Spanish authorities has been the insistence that projects must not begin before final award approval has been confirmed; this is seen as a possible significant constraint given the delays associated with central approvals.

In *Sweden*, aid area population coverage has been only slightly reduced (from 15.9 percent to 15.3 percent) due to the designation focus on areas of sparse population. The main change with respect to area designation is that the three larger cities in the north - Luleå, Umeå and Sundsvall - are no longer eligible for aid. With the exception of the county of Västra Götaland, which will have an aid intensity of 10 percent for large firms, the other eligible counties will benefit of the maximum aid levels of 15 percent. This is a significant reduction from the levels of 17 percent and 30 percent which applied in 2000-06. The main forms of aid will continue to consist of: the Regional Investment Grant (providing investment support in the designated aid areas: 2006 expenditure, SK 395.5 million), the Regional Grant for Business Development (targeted at SMEs in sparsely-populated and rural areas throughout the country: 2006 expenditure, SK 257.1 million); the Employment Grant (related to new job creation, but not awarded in conjunction with Regional Investment Aid: 2006 expenditure SK 34.4 million); and the Transport Grant (aiming to compensate for the costs incurred due to long distances from markets in the four northernmost counties: 2006 expenditure, SK 494.6 million). Negotiations relating to this last scheme for 2007-13 are still ongoing with the Commission. Within Aid Area A, there is also a social security concession available. Aid administration has not changed since the last review in 2005, when there was a centralisation of Aid Area B awards from the county-level to NUTEK, the aim being to allow regional bodies to focus on other regional development activities.

In the *United Kingdom*, the cut in aid area coverage was significant - from 30.7 to 23.9 percent of the national population. The 2000-06 map was used as the starting point in reviewing the cuts to be made, such that the new map fits within the previously-designated areas, albeit with a more patchwork quilt effect than previously. Award ceilings for large projects have been reduced in Article 87(3)(a) areas from 35 percent net grant equivalent to 30 percent gross; in Northern Ireland from 40 percent net to 30 percent (2007-10) and then to 20 percent (2011-13); and in other Article 87(3)(c) areas from 10-20 percent net to 15 percent gross in most instances and 10 percent in some (albeit with 25 percent maxima in economic development regions from 2007 to 2010). In England, the main aid scheme is Selective Finance for Investment (SFIE), which supports capital investment, training and productivity growth in the designated aid areas. In 2006/07, 333 offers of grant support were made, involving grants of £71 million (with an average award of just under 12 percent). In Scotland, over 1300 Regional Selective Assistance (RSA) offers were made in 2006/07 to the value of £92 million (average 22 percent), up from £59 million in 2005/06. RSA in Scotland is being consolidated with R&D support, and a single application form will in future cover all grants. More generally, the 2006 Budget launched a Business Support Simplification Programme which aims to reduce their number from 3000 to 100 by 2010.

In *Poland*, the whole country remains eligible for investment aid, with aid ceilings of 50 percent gross in the worst-off regions and 40 percent gross in most of the rest of the country, but just 30 percent gross in the Warsaw region by 2011-13. In recent years,



regional aid has become a more important component of overall state aid, rising from less than 1 percent in 2001 to nearly 10 percent in 2004. This reflects the growing importance of tax exemptions awarded to entrepreneurs in Special Economic Zones (SEZs). There are currently 14 such zones in operation. More recently, grant aid has become available under EU programmes.

Finally in *Norway*, aid area coverage increased from 26 percent of the national population in 2000-06 to 27.5 percent in 2007-13 (though, under the regional aid guidelines, coverage of over 29 percent would have been possible). The new map was similar to its predecessor, but with 24 newly-designated municipalities in sparsely-populated, peripheral areas in the south and west. In addition, the coverage of the maximum rate area was extended. Rate maxima for large projects fell from 25, 20 and 10 percent net in 2000-06 to 15, 15 and 10 percent gross in 2007-13. While these are significant cutbacks, rate reductions were much less for small firms (from 35, 30 and 25 percent net to 35, 35 and 30 percent gross). These maxima apply to the traditional regional aids - regional development grants, regional risk loans and related advice and development support. Also important in Norway is the social security concession. In response to competition policy pressures, this was phased out from all but the far north over the 2004-06 period. However, it could be (and was) reintroduced from 2007 under the new regional aid guidelines. The social security concession is available in the most sparsely populated areas, holding 17.7 percent of the national population, and involves revenue foregone of NK 10.5 billion per annum. This compares with spending on the traditional regional aids of some NK 1.1 billion in recent years. Since the change of government in 2005, the regional aid budget has grown, with a 13 percent increase between 2005 and 2007.

### *5.1.2 Comparative points*

Three main themes arise from this review of recent regional aid developments. First, with the exception of *Norway*, areas eligible for regional aid have all experienced cutbacks in population coverage - with major reductions (around one half) in *Denmark, Luxembourg, the Netherlands, France* and *Ireland*; cutbacks of between 16 and 24 percent in *Austria, Belgium, the United Kingdom, Germany, Italy, Finland* and *Portugal*; and relatively small adjustments in *Sweden* and *Spain*. In *Greece* and *Poland*, coverage was unchanged, with both countries continuing to be eligible for support in their entirety. The significantly-reduced coverage in most countries has caused policymakers to target locations where regional aid can be expected to have an impact. As mentioned earlier, regional aid maps in countries like the *Netherlands, France* and the *United Kingdom* are now focused on core growth zones within disadvantaged areas. On the other hand, in most countries, the broad look of the designated aid area map has not changed markedly between the two periods.

Second, significant reductions in award maxima have been introduced under the 2006 regional aid guidelines (see Figure 5.1). Large firm maxima have fallen to 10 or 15 percent gross in eligible Article 87(3)(c) areas and to a maximum 30 percent gross in all but the poorest and most distant Article 87(3)(a) regions. These are much lower ceilings than applied less than a decade ago (when the equivalent maxima were at least twice their current levels). However, it is only now that guideline-determined ceilings are beginning constrain actual awards made - and then only in respect of large firms. For small firms, the

ceilings laid down in the regional aid guidelines do not in general represent a major constraint on the operation of national regional aid regimes.

Figure 5.1: Maximum rates of award for large firms under the 1998 and 2006 Guidelines

	2007-13 (% GGE)	2000/4-6 (% NGE)
87(3)(a) area OMR < 75% EU25 GDP	50	65
87(3)(a) areas < 60% EU25 GDP	40	50
87(3)(a) areas < 75% EU25 GDP	30	40 <sup>a</sup> /50
Statistical effect	30 → 20	40 <sup>a</sup>
Low population density 87(3)(c) areas	15	30
Economic development 87(3)(c) areas	15/10 <sup>b</sup>	20
Other 87(3)(c) areas	15/10 <sup>b</sup>	20/10 <sup>b</sup>
Non-assisted	0	0

Notes: a) This rate applied in 2000-6 to 'a' areas with GDP per head exceeding 60 percent of the EU15 average. b) The lower rate applies to eligible areas where GDP(PPS) per head is higher than the EU average and unemployment below the EU average measured at NUTS III.

Source: EoRPA Paper 06/4. Assembled from information in the 1998 and 2006 Guidelines.

Finally, a number of broader aid-related developments are of note: the enhanced focus on innovation-oriented support, with a new PAT innovation scheme in *France*, new support for industrial innovation projects in *Italy* and new distinct SIME innovation and SIME internationalisation schemes in *Portugal*; the introduction of more simplified aid provision, with the merging of schemes and use of a single application form in *Finland*, the bringing together of investment and innovation support in *Scotland* (again via a single application form) and a more general business support simplification exercise in the *United Kingdom*; the increasingly selective and targeted nature of support, as reflected in developments in *Belgium*, *France*, *Ireland*, *Italy*, *Portugal* and the *United Kingdom*; and some moves towards a more regionalised approach to aid provision (in *Finland*, *France* and *Italy*). All of this reflects the generally lower budgets associated with regional aid provision (though not in *Norway*) and the related desire to improve the effectiveness and impact of the available funding.

## 5.2 Support for the business environment

In recent years, there has been a policy shift away from regional aid in most countries and towards broader regional policy support for the business environment – be this in the form of infrastructure measures, innovation-oriented support or urban-related assistance. In part, this reflects changes in EU frameworks – on the one hand, the increasingly constraining regional aid guidelines (with their more targeted regional aid provision and lower award ceilings) and, on the other, the broader programme-based approach under EU Cohesion policy. In addition, the domestic focus has increasingly been on the promotion of endogenous development, aiming to address supply-side and market-failure constraints, as well as on factors which will help improve regional growth and competitiveness. Allied to more regionalised and programme-based policy regimes, the result has been that increasing policy attention has come to be placed on broader measures to support the business environment. The aim in this section is to chart and explain recent regional policy changes in this respect in the countries under review, first by considering the main developments on a country-by-country basis and then by drawing together the main comparative points to emerge. An overview of the most important developments is provided in Table 7.

Table 7: Recent changes in business environment support (2006-07)

Austria	Long-standing regional policy stress on innovation/technology transfer. In 2005, the 'Strategy 2010' report (the national R&D plan) acknowledged the importance of regions in increasing innovative capability. New COMET programme in 2006 aims to raise regional research competencies.
Belgium	The 2006 Flanders in Action programme underlines the importance attached to innovative entrepreneurship, enhances SME support, tackles urban bottlenecks and improves industrial estate provision. In Wallonia, the 2006 Marshall Plan provides new support for clusters and competitiveness poles and more coherent business support (ASE/AST support bodies established).
Denmark	Business environment support has been the backbone of domestic regional policy since 1991. The 2005 Business Development Act gave new statutory responsibilities for economic development to five new regions, which significantly increased the profile of this aspect of policy from 2007.
Finland	New strategic regional programmes introduced for 2007-10, with strong innovation components (in line with the NSRF). Both the Centre of Expertise and Regional Centre programmes entered new phases, enhancing support for knowledge clusters and urban competitiveness.
France	Five competitiveness poles selected in July 2007. There are now 71, with 16 of international rank. They are important for regional policy, whilst also responding to industrial policy concerns. The CIAT introduced support for medium-sized towns and cities in March 2006, recognising their role in linking metropolitan and rural areas. This complements 2004 support for metropolitan cooperation.
Germany	The effectiveness of GA infrastructure spending is currently being reviewed (especially in the context of structurally-weak rural areas). The 2006-09 Framework Plan introduced pilot funding for infrastructure investment in business-oriented research institutions. GA support has also been available for cooperation networks and cluster management projects since 2005.
Greece	Regional policy is built around EU programmes, with a significant focus on infrastructure provision in the past and on Lisbon priorities in the new programming period. 2005 legislation established regional innovation poles, centres of technological skill and excellence.
Ireland	The 2007-13 NDP sets out ambitious plans for infrastructure investment. Business infrastructure provision is also important in regional gateway locations. New Gateways Innovation Fund to assist the development of designated gateway centres. Also university-industry collaboration supported.
Italy	Industrial innovation projects (PII) introduced. Aim to enhance competitiveness in five sectors: energy, sustainable mobility, 'Made in Italy' technologies, new biotechnologies, and innovative culture-related technologies. Though part of industrial policy, PII have significant regional impacts.
Luxembourg	Business support measures are national in orientation. The Centre of Enterprise and Innovation (Ecostart) in Foetz has recently been extended; the Ecostart 2 site opened in June 2007.
Netherlands	Considerable weight is attached to the provision of economic infrastructure under the <i>Peaks in the Delta</i> programmes (2007-10). In addition, there is a strong regional innovation component to the programmes, especially in the south-east, the east and the north and south wings of the Randstad.
Portugal	There have been a series of national initiatives relating to the business environment including, in particular, infrastructure provision (the PPIP) and the stimulation of growth and competitiveness (Technology Plan). The NSRF aims to promote educational attainment, enhance competitiveness, strengthen employability and entrepreneurship, promote spatial planning and improve governance.
Spain	Recent sectoral initiatives have introduced measures to improve business competitiveness, enhance R&D and innovation and boost transport infrastructure. There has also been a new programme to improve the innovation capacity of Spanish firms and another to launch the first national clusters programme.
Sweden	The new government has introduced a range of initiatives to support SMEs as part of its programme for business. In addition, innovation continues to be stressed, with, for instance, 15 new VINN excellence centres selected in June 2006 and with a NUTEK-run regional clusters programme (2005-10). There is also more of a policy focus on urban centres.
UK	The policy balance continues to shift towards support for the business environment. The business support landscape is being rationalised (from 3000 to 100 schemes by 2010) and support services are also becoming increasingly coordinated at the regional level (for instance, via the RDAs in England). RDAs are also responsible for innovation-related measures and have an increasingly broad strategic role. In Scotland, a review of the provision of business support services is underway.
Poland	Regional support provided under EU programmes is growing in importance, including measures to strengthen and develop business support institutions. The regional dimension to business support should increase in 2007-13 via the ROPs. Within these, transport infrastructure is due to receive one quarter of the available budget and R&D, innovation and enterprise support a further quarter.
Norway	Support for the business environment is an important component of regional policy, not only through general transport infrastructure measures (to improve accessibility and reduce peripherality) and the provision of business infrastructure (incubators, knowledge parks, business "gardens") but also via the new Centre of Expertise programme. This aims to strengthen regional industrial and knowledge clusters. Six centres were chosen in 2006 and a further three in 2007.

### *5.2.1 A country-by-country review of change*

In *Austria*, there has been a long-standing regional policy emphasis on innovation and technology transfer, focusing on cooperation and knowledge transfer via so-called regional impulse centres which have a range of support schemes associated with them. At a broader level, the national research and development plan (NAFIP) was updated in 2005 (the Strategy 2010 report). It acknowledged the importance of regions in increasing innovative and competitive capability. It recommended that regional clusters be supported, coordination between regional and national R&D activities be improved, the role of universities and polytechnics in research networks be strengthened and the focus on technology transfer and network activities be increased. Parts of Strategy 2010 are implemented through the Structural Funds. With many domestic innovation schemes closely linked to EU support, the new EU budget period has seen many schemes revised. Of most importance, a new COMET programme (Competence Centres for Excellent Technologies) has replaced the former Kplus and related programmes. Through calls-for-proposals, it aims to foster cooperation between business and science in order to raise research competencies and encourage the commercial use of research results.

In *Belgium*, the 2006 Flanders in Action programme underlines the importance attached to innovative and creative entrepreneurship. A new Budget for Economic Advice scheme aims to promote services for SMEs relating to advice, training, mentoring and innovation; a new focus on logistics strives to develop the location quality of Flanders by creating a stable environment for logistics networks; and, in the field of urban development, a new *Centrumsteden* initiative tackles urban bottlenecks in an integrated way. In addition, in May 2007, new industrial estates legislation came into force to support the development, upgrading and regeneration of industrial estates, with a particular focus on strategic industrial estates. In Wallonia, the “Marshall Plan”, which sets out the priorities of the Walloon government, was given a legislative basis in February 2006. Support for clusters is an important element of the new industrial policy. In addition, a call for competitiveness poles resulted in five poles being chosen in 2006 (aerospace, life sciences, agro-industries, transport/logistics, and mechanics). Over the 2006-09 period, €280 million will be spent on these poles in addition to traditional aid schemes. Also of note, two new agencies were created in 2006 to provide more coherent economic and technological support for businesses. The Agency for Economic Stimulation (ASE) aims to rationalise existing economic support structures and make them more coherent; the Agency for Technological Stimulation (AST) provides support for networking and research utilisation activities.

In *Denmark*, support for the business environment has been the backbone of domestic regional development activities since the abolition of regional grants in 1991. Under the 2005 Business Development Act, new statutory responsibilities for economic development have been given to the five new regions which have been established. This has significantly raised the profile of this component of public policy. The Act defines the purpose of regional policy in terms of six priority areas, four of which relate explicitly to the business environment: innovation, ICT, entrepreneurship and human resources. More basic business advisory functions have been left with the local government tier.

In *Finland*, the revisions made to the Regional Development Act and the new Structural Funds Law underline the importance of the regional level, particularly with respect to support for the business environment. The key business environment measures are the strategic regional development programmes (which play an important coordination role), the Centre of Expertise programme and the Regional Centre programme. New strategic regional programmes were recently finalised for 2007-10. They have a strong innovation component and were developed in line with the NSRF. The Centre of Expertise programme began in 1994 and has just been renewed for a third phase (2007-13). The new programme operates through 21 centres (chosen by competitive tender) which will implement 13 knowledge clusters, each of which promotes enhanced cooperation between four to seven centres. This should allow the centres to compete more effectively internationally, while also improving regional specialisation. Finally, the Regional Centre programme, originally established in 2001, has also entered a new (2007-10) phase. In order to improve the competitiveness and vitality of urban regions, it aims: to develop innovation systems and knowledge; to improve cooperation and networking between the different actors; to support entrepreneurship by developing the operating environments of firms and through business training; to reinforce clusters; to create new product and service concepts and business opportunities; to help relocate businesses and expert labour to the regions; and to improve the interaction between culture and economic development.

In *France*, innovation-related measures have received increased attention against a background of the renewed Lisbon agenda and ongoing discussions about industrial relocation processes. Of particular note, 71 *pôles de compétitivité* have been selected, most in July 2005, but a further five in July 2007. The poles are organised around associations of firms, research and higher education centres committed to a partnership approach based on a joint development strategy which aims to release synergies via cooperative innovative projects. Sixteen poles are of international rank, while the rest have a national or regional focus. Overall, a budget of €1.5 billion is available between 2006 and 2008. The poles represent a significant component of regional policy whilst also responding to industrial policy concerns. In addition, there have been a number of urban-related developments. Following moves to improve cooperation between metropolitan areas in 2004 (to enhance the role of cities as motors of regional development), the March 2006 CIAT introduced a complementary approach to medium-sized towns and cities, recognising their pivotal role in linking metropolitan and rural areas. A final group of measures are more infrastructure-oriented. These include financial support for the regional broadband infrastructure as well as transport infrastructure.

In *Germany*, the GA co-finances infrastructure projects, as long as these are clearly oriented towards economic development and business activity; such support currently accounts for around 30 percent of the GA budget. It funds industrial parks; improvements to transport, energy, water, waste water and waste infrastructure; and the construction or improvement of education and training institutions. Two recent infrastructure-related changes to the GA involve (a) passing responsibility for the compatibility of infrastructure measures with EU state aid rules to the *Land* level; and (b) reviewing the effectiveness of GA infrastructure spending (especially in the context of structurally-weak rural areas). The GA also makes provision to support softer forms of intervention. The 2006-09 Framework

Plan introduced a pilot approach to allow funding to be allocated to non-profit-making, non-university, business-oriented research institutions until 31 December 2008. Previously, funding was available for research projects in such institutions but not for infrastructure investment. In addition, the GA funds projects which encourage collaboration: for instance, GA support has been available for cooperation networks and cluster management projects since 2005.

In *Greece*, regional policy has been built around EU regional programmes in recent years. This has seen a significant focus on infrastructure provision in the past and will involve a particular stress on Lisbon priorities in the new programming period. In this latter context, 2005 legislation (Law 3377/2005) established regional innovation poles which aim to promote regional development through the creation of centres of technological skill and excellence in the periphery. The main objective has been to improve competitiveness by promoting research, technology and innovative practice in the regions. Involving public investment of €15 million, proposals to create regional innovation poles have been selected in five regions: Thessalia, Kentriki Makedonia, Dytiki Makedonia, Dytiki Ellada and Kriti.

In *Ireland*, 'hard' infrastructure still forms an important element of support for the business environment. The 2007-13 NDP sets out ambitious plans in the field of infrastructure investment, identified as a "*key ingredient in the competitiveness of Irish economy as a whole, and also an important driver of regional economic growth*". In addition, business and technology parks and incubator units continue to be important elements of policy, with IDA-Ireland developing 'flagship parks' in gateway locations and world-leading clusters of knowledge-based activities. 'Infrastructure-rich' sites for utility-intensive industries are also being developed in a range of centres. A key part of the NDP is the Gateways Innovation Fund, a new initiative to assist the development of designated gateway centres. For 2008-10, €300 million has been allocated to finance urban regeneration projects, transport initiatives and quality of life projects. IDA-Ireland and Enterprise Ireland also support capacity building in R&D and innovation. Part of this work has involved collaborating with universities and research institutes to build their links with industry, to develop new business or to encourage existing enterprises to pursue higher-value activities.

In *Italy*, the most significant new development relating to regional policy has been the introduction of industrial innovation projects (PII, *Progetti di Innovazione Industriale*), even though, strictly speaking, they are part of industrial policy. They aim to re-launch and upgrade the competitiveness of the Italian productive system by taking a more selective approach to public support for industrial investment. The 2007 Finance Law foresees the implementation of five PIIs in strategic sectors considered to be key to enhancing the competitiveness of the Italian productive system: energy efficiency; sustainable mobility; new technologies for the Made in Italy programme; new bio-technologies; and innovative technologies for cultural resources and activities. The first two PIIs have progressed most and have been allocated €350 million each. The selected projects are long-term, involve substantial resources, have national relevance, are targeted at the achievement of specific technological goals, and focus on complex activities, producing innovative and high value added products and services alongside more traditional production.

In *Luxembourg*, support for the business environment is generally available throughout the country. It includes: R&D incentives, with an extra 5 percent available in the designated aid areas; a cluster programme, which was launched in 2001 and includes aerospace, ICT and new materials clusters; the provision of infrastructure for business parks and start-up companies (with the development of former steel industry premises through the City of Sciences, Research and Innovation project at Belval-Ouest and the Centre of Enterprise and Innovation, Ecostart, in Foetz); and support for the promotion of entrepreneurship. Amongst recent developments, the Ecostart 2 site began to operate in June 2007.

In the *Netherlands*, a feature of *Peaks in the Delta* is that it has continued the shift away from regional aid and towards programme-based regional development measures. In this context, considerable weight is attached to the provision of economic infrastructure (aligned closely with the National Spatial Planning Strategy) and including also an Industrial Estates Action Plan which aims to ensure that there is sufficient provision of international-standard industrial sites. The Action Plan is due to be evaluated in 2008, at which time its relationship to *Peaks in the Delta* will be reviewed. The *Peaks* focus on regional strengths means that there is a regional innovation component to all six *Peaks* programmes which began to operate fully in 2007. It is especially important in the south-east, where the programme concentrates on the innovation potential of the region (high-tech systems and materials, food and nutrition, life sciences/medical technologies), but is also highlighted in the east (food and nutrition, technology, health) as well as in the north and south wings of the Randstad. Finally, the stress on regional potential means that there tends to be an urban orientation to the *Peaks* programmes. For instance, in the northern Randstad, the emphasis is on developing international services and related activities based around Schiphol airport; in the east, the stress is on utilising specialised knowledge-based services located in the main university towns; and, in the south-east, the goal is to create a world class technology region, based on Eindhoven and neighbouring areas.

In *Portugal*, the government which came to power in February 2005 has introduced a number of initiatives related to the business environment. The Programme for Investment in Priority Infrastructure (PIIP) has allocated €25 billion over the 2005-09 period under three priorities: basic infrastructure (€16.8 billion, with half to transport and a further third to energy); territory (€3.8 billion, with half to cities); and knowledge, information and training (€4.4 billion, with three-quarters to ICT). The Technology Plan, approved in November 2005, aims to mobilise public and private resources around growth and competitiveness factors. Its three strategic priorities relate to knowledge (e.g. raising average education levels), technology (strengthening competencies and mobilising R&D in businesses) and innovation. During 2007, the National Strategy for Sustainable Development and the National Programme for Spatial Planning identified further development goals and objectives. These have been brought together in the 2007-13 NSRF under five headings: *qualification* (promoting levels of educational attainment); *sustained growth* (enhancing the competitiveness of territories and businesses); *social cohesion* (increasing employment and strengthening employability and entrepreneurship); *urban and territorial participation* (pursuing environmental gains, promoting spatial planning and enhancing the connectivity of the territory); and *governance efficiency*.

In *Spain*, there have been a number of important sectoral initiatives which aim to enhance the business development environment by improving business competitiveness, R&D and innovation as well as infrastructure provision. These include the 2005 Plan for Dynamising the Economy and Boosting Productivity; a new draft national plan for research, development and innovation (2008-11), which builds on Ingenuity 2010, a 2005 programme which significantly increased public research funding; and the 2005-20 Strategic Plan for Transport Infrastructure. More recently, a series of initiatives have been approved under the 2006 Plan for Boosting Enterprise. This aims to enhance entrepreneurship, promote business creation and business growth, increase innovative capacity and knowledge transfer, strengthen internationalisation and simplify administrative procedures. Under this Plan, INNOEMPRESA 2007-13 is a programme to improve the innovation capacity of Spanish firms, while a new clusters programme (AEI, *Agrupaciones Empresariales Innovadoras*) has been launched. This is the first national clusters programme in Spain; amongst other things, it will facilitate access to EU Cohesion policy and FP7 funding.

In *Sweden*, there has been increasing stress on broader regional policy measures channelled through the Regional Growth Programmes. Two recent developments are worth highlighting. First, the new government has introduced a range of initiatives to support SMEs as part of its programme for business (*företagspaketet*): the abolition of the capital tax; strengthening the advisory services of ALMI; improving the available micro-loan support; enhancing assistance for female, young and immigrant entrepreneurs; simplifying the administrative burdens on business; reducing social security payments for service sector employers (subject to European Commission approval); and increasing SME R&D funding. In addition, support for innovation (through VINNOVA, the Swedish Agency for Innovation Systems) continues to be emphasised. Key measures include: *VINN excellence centres*, which aim to create long-term research partnerships between universities, private enterprise and the public sector, with 15 new centres selected in June 2006; *Berzelii centres*, which focus on basic research and aim to encourage private/public collaboration to commercialise research results; *the VINNVÅXT programme*, which aims to increase growth and innovation in selected regions; and *institute excellence centres*, which aim, through cooperation, to create leading international research centres in fields central to the future growth and competitiveness of Sweden. NUTEK also runs a regional cluster programme (2005-10), which finances established cluster initiatives promoting international competitiveness. Finally, it should be noted that urban areas are now included more directly in the analysis of regional development issues and are explicitly taken into consideration in the growth-oriented national programme of NUTEK (2006-09).

In the *United Kingdom*, the balance between business aid expenditure and broader measures to improve the business environment continues to shift in favour of the latter. The government is committed to rationalising the business support landscape and expects to reduce 3000 publicly-funded schemes in 2006 to just 100 by 2010. Related to this, the Business Link network is to become the primary route for advice on business support in England. Also in England, there will be further streamlining at the regional level through the growing coordination role of the RDAs. They now have an overview of business support provision (through Business Link), a responsibility for research and development grants and business-university collaboration, and an increasingly broad strategic role, via combined



regional economic and spatial planning strategies. At the same time, emphasis is increasingly being placed on sub-regional, urban, local or ward-level areas, with distinctions drawn between areas where business may need particular support. In Scotland, a review of the delivery of business support measures is underway. Similar to England, discussions are concentrating on the achievement of more efficient and effective service delivery across authority boundaries as well as on improving integration with community planning, land-use planning, transport and existing partnership structures.

In *Poland*, an increasingly significant role has been played by regional support awarded to entrepreneurs within the framework of operational programmes co-financed from EU funds. Significant direct support for investment first became available under the Sectoral Operational Programme 'Improvement of the Competitiveness of Enterprises' 2004-06. Investment grants totalling €1.4 billion were available as well as support for consultancy services, participation in fairs and business missions, training support and guarantee and loan funds. Many measures aimed to strengthen and develop business support institutions (such as technology transfer centres, science and technology parks, industrial parks, technology incubators and R&D institutions, loan and guarantee funds, and seed capital funds). In the 2004-06 OPs, most business development funding went to projects from the bigger cities and better-developed regions. Though there was also a regional dimension to the available support (through the Integrated Regional Operational Programme 2004-06), its focus was on micro-enterprises. The 2007-13 period should see the regional dimension of business support gaining more funding through the launch of Regional Operational Programmes. Within these, transport infrastructure is due to receive more than a quarter of the available budget, with R&D, innovation and enterprise support accounting for a further quarter.

Finally, in *Norway*, support for the business environment has become a core component of regional policy. One of the main promises in the 2005 White Paper was a commitment to continue government support for business incubators, business "gardens" and knowledge parks, entrepreneurship, SMEs and RTDI; and this was carried forward in the 2006 White Paper. In addition, a new Centre of Expertise programme began in autumn 2006 with annual funding of NOK 52 million. The aim was to strengthen regional industrial and knowledge clusters which included businesses with growth ambitions and international competitiveness potential. Following a call-for-tenders in November 2005, six centres were chosen in April 2006: Hordaland (subsea technology); Kongsberg (systems engineering); Møre (maritime); Raufoss (light materials and automated manufacturing); Trøndelag (instruments) and Horten (microsystems). In the first half of 2007, a second round of applications saw a further three centres selected: Nordland (ocean products); Rogaland (food-related) and the Oslo Cancer Cluster. More generally, the new government has highlighted the important role of infrastructure provision in economic development.

### *5.2.2 Comparative points*

It was noted earlier that there has been a policy shift in recent years towards broader regional policy support for the business environment - whether through enhanced infrastructure measures, improved innovation-oriented support or urban-related assistance. This section considers each of these aspects briefly in turn.

The provision of large-scale infrastructure to promote economic development in the regions has long been an important element of regional policy in many countries, most obviously in the form of transport measures but also communications infrastructure (e.g. broadband access). Within the EU15, large-scale infrastructure provision is a core component of policy in the regions in *Greece*, *Portugal* and *Spain* and also plays a role in the *Mezzogiorno* in *Italy* and in eastern *Germany* (under the Solidarity Pact). Transport and communications infrastructure also has a high policy priority in the *Nordic* countries, where problem regions are often characterised by long distances and difficult geography. In addition, in the *EU12*, infrastructure provision is an obviously important part of EU programme funding. In *Poland*, the 2007-13 Infrastructure and Environment OP has been allocated some €21 billion, representing over one-third of the Structural Funds budget while, in the *Czech Republic*, the OPs for Infrastructure and the Environment have combined allocations of almost €11 billion, nearly half the Czech Structural Funds allocation.

Recent developments confirm the continuing importance of infrastructure provision from a regional policy perspective – and not only in those countries with major EU funding. In addition to a number of new national infrastructure programmes (such as the Programme for Investment in Priority Infrastructure in *Portugal* and the Strategic Plan for Transport Infrastructure in *Spain*), the 2007-13 NDP in *Ireland* views infrastructure investment as a “*key ingredient in the competitiveness of Irish economy as a whole, and also an important driver of regional economic growth*”. In the *Netherlands*, too, *Peaks in the Delta* is closely aligned with national spatial planning priorities which stress the importance of infrastructure improvements to enhancing accessibility to prime urban centres and growth points. More generally, a growing number of countries have been linking spatial planning priorities and regional development goals more closely – as, for instance, in *Ireland*, given the priority now attached to the National Spatial Strategy; the *United Kingdom*, where RDAs in England are now responsible for combined regional economic and spatial planning strategies; and also in *Poland*, where an updated spatial planning strategy is under development. Increasing attempts are also being made to influence national policies (including infrastructure policies) to regional development ends, not least through enhanced policy coordination (see Section 6.2).

In addition, there is the provision of more targeted business infrastructure – industrial estates, science parks, technology centres. Many countries support such infrastructure under their regional policies. For instance, in *Germany*, the GA has long financed such measures, as long as these are clearly oriented towards economic development and business activity. Elsewhere, support for business infrastructure has taken on a growing policy role as the reliance on investment incentives has declined. In *Ireland*, for example, business and technology parks and incubator units have become hubs for development in key regional gateway locations, while the provision of high-quality industrial estates has taken on a strategic role in countries like *Belgium* (Flanders). More generally, enhanced support for targeted business infrastructure is associated with the more regionalised delivery of regional policy via regional plans and programmes.

With respect to more general business support, a number of recent developments have aimed to improve and simplify its provision. In *Belgium*, a new Budget for Economic Advice scheme plans to deliver improved services for SMEs in Flanders while, in Wallonia, the

Agency for Economic Stimulation has been set up to rationalise existing support structures and make them more coherent; in similar vein, a new Agency for Technological Stimulation has been established to assist in networking and research utilisation activities. In *Denmark*, the newly-created regions have statutory responsibilities for economic development. This contrasts with the previous 'voluntary' approach and has increased the profile attached to the provision of business support services in the regions. In *Sweden*, the new government has introduced a range of initiatives to support SMEs, including stronger advisory services through ALMI. Finally, in the *United Kingdom*, a major effort is being made to reduce the number of publicly-funded business support schemes from 3000 to 100 by 2010, thus streamlining and clarifying their provision.

A feature of the overview of business environment change in Table 7 is the extent to which it highlights innovation-oriented developments. Thus, for instance, there have been a series of initiatives relating to the establishment or development of regional clusters - in *Finland*, where the Centre of Expertise programme has entered a new policy phase which aims, through cooperation and networking, to help the centres compete more effectively internationally; in *France*, where five further competitiveness poles have been selected and where there are now 71 poles, with 16 of international rank; in *Greece*, where a 2005 law has established five regional innovation poles; in *Italy*, where five industrial innovation projects are being supported in key strategic sectors to help improve the competitiveness of the national productive system; in the *Netherlands*, where, under *Peaks in the Delta*, the policy focus is on selected regional strengths which benefit the national economy; in *Spain*, where the first national clusters policy has just been introduced; in *Sweden*, where 15 new VINN excellence centres were chosen in June 2006; and in *Norway*, where a new Centre of Expertise programme has been established, with six centres chosen in 2006 and a further three in 2007. Although viewed in some countries as part of industrial policy more than regional policy, all such initiatives have clear regional development implications, especially in a regional programming environment.

More generally, the Table 7 changes confirm the importance of innovation-oriented measures within domestic regional policy. In *Austria*, regional policy has long been synonymous with regional innovation policy. The national research and development plan (Strategy 2010) has recently acknowledged the importance of regions in increasing innovative and competitive capability. In *Denmark*, the 2005 Business Development Act grouped regional policy interventions into six priority areas, two of which relate to innovation and ICT. There is also a growing innovation focus in *Ireland* where softer forms of innovation-oriented support have been prioritised, including capacity building in R&D and innovation. The GA in *Germany* has also strengthened its support for innovation; on a pilot basis, funding is available to support infrastructure investment in non-profit-making, non-university, business-oriented research institutions. For its part, *Peaks in the Delta* in the *Netherlands* aims to develop a region-specific innovation policy by stimulating those aspects of the innovation process which take place regionally. Four of the six regional *Peaks* programmes are centred around region-specific innovation strengths. Finally in the *United Kingdom*, investment and innovation support is increasingly interrelated, both at the level of the Devolved Administrations and within the RDAs in England. It is the RDAs which are

responsible for research and development grants and for business-university collaboration in the regions.

Many of the innovation-related initiatives in Table 7 have a clear urban orientation. In addition, there has been a broader set of measures which aim to improve the business environment by supporting developments in and around urban areas. In *Belgium*, for instance, the 2006 Flanders in Action programme has, amongst other things, tackled urban bottlenecks in an integrated way. In *Finland*, the new phase of the Regional Centre programme aims to improve the competitiveness and vitality of urban regions. In *France*, a new policy for medium-sized towns and cities has been introduced to complement earlier measures which aimed to enhance metropolitan cooperation. In *Ireland*, there has been a strong focus on regional gateways and hubs, with a view to promoting balanced regional development and maximising regional potential. In the *Netherlands*, the newly-operationalised *Peaks* policy, with its focus on regional strengths, has an obvious urban orientation. In *Sweden*, the increased emphasis on an all-country approach to regional policy has enhanced the role of cities in regional development; related, there have been efforts to move urban policy itself away from purely social issues and towards providing urban regions with good conditions for long-term growth. In the *United Kingdom*, cities are seen more and more as key drivers of economic growth and there has been an increasing alignment of urban and regional policy objectives in England. In Scotland, too, city-regions lie at the core of the Smart Successful Scotland economic development strategy; not only have cities become the focal point for growth, but the interrelationships between them and their regions – and the infrastructure which connects them – are now given considerable policy weight. Finally in *Poland*, there is a particular focus on the regional potential of large metropolitan areas, tied also to the objective of strengthening links to surrounding areas to help ensure the diffusion of economic growth.

Overall, it can be seen that there have been a wide range of recent policy initiatives and developments which aim to improve the business environment. Many of them are associated with the increasingly regionalised approach to regional policy now found in many countries and, in particular, to the growing stress placed on regional programmes and programming. Trends in the administration of regional policy are discussed further in the next section.

## 6. THE ADMINISTRATION OF REGIONAL POLICY

New approaches to the administration of regional policy have emerged across the EU in recent years. Overall, two main trends can be identified. First, in several EU countries, powers for delivering regional policy are being reworked across administrative scales. A second process relates to the coordination of regional policy delivery across and between administrative levels.

These two trends are considered in the next two sections. At this point, however, it is important to note some caveats. Delivery systems are dynamic. Broad processes of rescaling take on different inflections in different countries, as specific cultural, political, social and economic forms produce distinctive national responses. Variation is explained by several

factors. A key determinant is the system on to which regional policy administrative arrangements are mapped. A basic categorisation includes:

- *Federalised or regionalised systems of government*, where regions with elected parliaments and significant budgetary, legislative and fiscal powers play important roles in regional policymaking (e.g. federal systems such as *Germany*, *Austria*, *Belgium* or regionalised systems such as *Spain* and *Italy*).
- *Devolving unitary systems of government*, where regions have more limited powers, with elected bodies, some budgetary and fiscal powers and substantial funding for regional policy from central transfers. Regions exercise some authority in regional policymaking but only within a framework set by the centre. Examples include the devolved administrations in the *United Kingdom*, the regional self-governments in *Poland* or the new regional councils in *Denmark*.
- *Unitary systems of government*, where government may regionalise its organisation but not its authority. Regional entities have no elected parliament, no budgetary or fiscal powers and all financial resources are transferred from the centre. Regional policy is controlled by the national level, with government offices or agencies acting as implementing authorities in the regions (e.g. *English* regions, *Finland*).

The conceptualisation of the regional development ‘challenge’ is also influential. Large, central government interventions in targeted territories can lead to heavy reliance of sub-national levels on vertical transfers, particularly those tied to specific policies determined by the centre. On the other hand, moves towards a regional policy based on the encouragement of growth factors at regional or sub-regional levels can argue for a more decentralised approach. Finally, arrangements for the administration of the Structural Funds can be a factor, particularly at a time when new programmes are being rolled out. Where the strategic and financial resources of Structural Funds programmes are strong relative to domestic regional development interventions, their influence on the allocation of regional policy responsibilities can be significant. Given the scope for differentiation, the analysis which follows of recent trends in the allocation of regional policy responsibilities and in the coordination of policy delivery begins with country-by-country reviews followed by discussions of the main comparative points arising.

## 6.1 Reallocating delivery powers across administrative tiers

Across the EU, powers in delivering regional policy are being reworked across administrative scales. Notably, this includes decentralisation reforms and the territorialisation of public policies. The traditional top-down redistributive approach to regional policy, associated with the award of regional aid by central governments, has gradually been supplanted by a new regional policy paradigm that stresses the utilisation of regional factors of growth, particularly through regional development programmes. This has been accompanied by the progressive upgrading of the regional level in the policy process. Other dynamics in the reallocation of regional policy responsibilities can be identified. In some countries, efforts to address different factors of economic growth at the appropriate spatial levels are prompting the reconfiguration of administrative boundaries, organisational relationships

and capacities at sub-national levels. This can draw in different sub-regional actors into the policy delivery process: municipalities, agglomerations, cities etc. Moreover, central governments continue to play an active role in regional policy formation and delivery. Regional policies influence macroeconomic conditions, socio-economic cohesion and even the political stability of the state. In many cases, central ministries, departments and agencies remain important sponsors of regional development. There is a logical tendency for these bodies to seek to determine what sub-national levels do with the money allocated. Recent changes in the allocation of regional policy responsibilities are summarised in Table 8.

### ***6.1.1 A country-by-country review of change***

In *Austria*, the administration of regional policy has remained largely unchanged in recent years. Regional economic development remains the responsibility of the nine *Länder*, coordinated by the Federal Chancellery (BKA) and supported by the non-binding recommendations of the Austrian Conference for Spatial Planning (ÖROK). Current issues relate to arrangements for the 2007-13 Cohesion policy programming period, including the development of management and control systems, the adoption of a more strategic approach to the monitoring and steering of programmes and the extension of evaluation activities. However, only marginal changes have been made with respect to the division of competences.

In *Belgium*, successive reforms of the federal system of government have devolved significant competences to the regions. Regions are now able to design and implement a wide range of policies in line with their specific needs, including regional policy. Of particular note, with respect to regional aid, new regional legislation replaced former federal framework laws over the 2003-05 period. Following the June 2007 federal elections, discussions are continuing regarding the regionalisation of further competences. The regions are responding to the decentralisation process in different ways. Debates about the division of responsibilities between regional and sub-regional groupings and agencies are prominent in Flanders, while new efficiency-oriented administrative approaches are evolving in Wallonia, including the merger of some ministries.

In *Denmark*, a new institutional framework has been established. This integrates local, regional, national and EU economic development activities within a single, programme-based, policy structure. A major reform of local government in 2007 reduced the number of local authorities from 275 to 98 and the intermediate level from 14 *Amter* to just five regions. Importantly, these regions have been given statutory responsibility for economic development, a policy area which previously had no legal basis at the sub-national level. The regions are obliged to establish one or more partnership-based regional growth fora which provide the elected regional councils with strategic inputs with respect to economic development. New legislation has also given the fora a key role in the administration of the Structural Funds.

Table 8: Recent changes in the regionalisation of regional policy

Austria	Regional policy remains the responsibility of the nine <i>Länder</i> , coordinated by the BKA and supported by the non-binding recommendations of ÖROK. A new Article 15(a) contract defines competences between different levels for Structural Funds management. Only marginal changes.
Belgium	Following constitutional reform in 1970, regional economic development competencies have been transferred from the federal level, though federal powers still cover some important areas. Regional aid laws regionalised in 2003-05. Division of competencies still remains an issue.
Denmark	A new institutional model integrates local, regional, national and EU economic development activities within a single, programme-based, policy. Major reform of local government in 2007. Five regions now have statutory responsibility for economic development via partnership-based regional growth fora which provide strategic inputs and have a key Structural Funds role.
Finland	The revised Regional Development Act has increased the responsibilities of Regional Councils in deciding regional funding allocations. The regional level also has a stronger programme management and coordination role under the Structural Funds. There are some pressures to move to larger regions (Alliance, NUTS II level) for regional policy purposes.
France	Decentralisation began in 1982. Recent measures have seen gains in autonomy for local authorities, inter-commune groupings and regions. However, the process has been limited (due mainly to debates about suitable levels of compensation for responsibilities transferred).
Germany	Economic development is a <i>Land</i> responsibility. The GA, a joint Federal-Land framework introduced in 1969, is a system of rules-based coordination. Following review as part of the federalist reform process, its role was re-confirmed in 2006.
Greece	Under EU pressures, a regional government level was introduced in 1997. The 2000-06 CSF brought in regional operational programmes for the 13 NUTS II regions. For 2007-13, the number of ROPs has been reduced to five with managing authority responsibilities centralised.
Ireland	The centralised framework supporting regional policy is unchanged. However, NUTS II Regional Assemblies, Managing Authorities for the 2007-13 ROPs, are seeking a higher domestic profile while NUTS III regional authorities are gradually establishing themselves in the policy process.
Italy	Constitutional reforms/legislative initiatives over the past decade have transferred wide-ranging economic development competences to the regions. A new 'unitary' regional policy has been developed for 2007-13. Although sub-national levels retain powers, this process reasserts the role of the national level in delineating objectives, ensuring integrated approaches across administrative tiers and aligning domestic and EU programmes.
Luxembourg	None. Regional policy is administered centrally with no significant involvement of local actors.
Netherlands	Recent years have seen the Ministry of Economic Affairs organise its regional policy activities via regional programme teams, which ensure that national priorities are reflected in regional policy delivery. The new government favours decentralisation to the provinces and municipalities, though the practical implications of this are not yet clear.
Portugal	There is no regional level of government. For 2007-13, national operational programmes will be rationalised and ROP responsibilities will be concentrated in a single body for each programme. Some incentive schemes have been regionalised for the first time.
Spain	Economic development powers have lain at the regional level since the early 1980s. The government's 'new territorial agenda' is being rolled out. This involves reforms to the constitution and regional governments' statutes of autonomy, the institutionalisation of regional participation in EU policymaking and a new Conference of Regional Presidents.
Sweden	Regions have become more responsible for regional development due to the Regional Growth Programmes and the role of County Administration Boards (CABs). There have been recent moves to transfer CAB responsibilities to Municipal Cooperation Bodies. A 2007 parliamentary committee review into public sector administrative structures proposed the creation of new regional authorities to bring a number of tasks into a broader regional development mandate.
UK	Devolved strategy-making and policy delivery remain the organising principles of regional policy. Recent plans envisage the expansion of the budgets, policy competences and strategic overview of the RDAs, albeit within a centrally-determined policy framework. New regional ministers have been appointed and the role of elected local authorities in regional strategies is to be boosted.
Poland	The 2007-15 National Development Strategy and recent legislation confirm parallel processes of regionalisation and central-level coordination. The Ministry for Regional Development has a key role in the overall administration of regional policy while regional self-governments should play a more active role in steering development as Managing Authorities for the new ROPs.
Norway	Regional policy is developed nationally but regional programming is now established, with counties gaining increasing steering and funding autonomy. Counties are also taking on part-ownership of Innovation Norway in partnership with the Ministry of Trade and Industry. A White Paper reviewing the regional/county system of government was discussed in Parliament at the beginning of 2007. However, a lack of political consensus and the strength of sectoral interests, means that change is likely to be limited, at least in the short-term.

In *Finland*, the revised Regional Development Act has introduced measures to increase responsibilities of Regional Councils in terms of decision-making in funding allocations for regional programmes. Regional Councils have also been delegated management and implementation responsibilities for Structural Funds programmes. The government is seeking to rationalise and integrate delivery arrangements at different levels. In 2008, a new Ministry for Employment and Industry will be created, incorporating the units for regional development from the Ministries of Trade and Industry, Labour and the Interior. The division of work between the state provincial offices, T&E centres, and Regional Councils, is also being reviewed in order to eliminate overlap between their tasks and to reduce the number of authorities. This includes an assessment of the current number and size of Regional Councils.

In *France*, the inter-ministerial delegation DIACT, formerly DATAR, functions as the main national partner of the regions in developing and implementing planning documents, notably state-region contracts (CPER). Ministerial responsibilities for regional development have recently moved from the Ministry of the Interior to the newly-established “super” Ministry of Ecology, Sustainable Development and Planning. Over the past 25 years, executive powers have gradually been decentralised to the presidents of regional councils and councils of the departments. Although recent decentralisation measures are felt to have led to gains in autonomy and new opportunities, such as the “right to experiment” with respect to the delegation of competences, the transfer of powers has been limited and debate is ongoing over the efficient allocation of responsibilities and funding across national, regional and local levels.

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

In *Greece*, the administration of regional policy has been largely based on policy instruments provided by EU programmes. Thirteen regions were established and given substantive responsibilities for economic development and planning in response to pressures created by the institutional demands of EU programmes. There have been significant changes concerning Structural Funds delivery structures for the 2007-13 programming period, pointing to a more centralised approach in an effort to improve policy effectiveness. A National Coordination Authority has been established with wide-ranging jurisdiction over programming issues. In addition, the number of regional programmes has been reduced from thirteen to five and managing authority responsibilities have been moved from regional authorities to one central authority.



In *Ireland*, the institutional framework supporting the implementation of regional policy is largely unchanged and remains driven to a considerable degree by Structural Funds programming requirements. There has traditionally been a highly-centralised approach to the Structural Funds (and regional policy), not least because the whole country was designated as a NUTS II region up until 1999. In terms of regional participation, the two NUTS II Regional Assemblies (established in 1999) will continue to be the Managing Authorities for the new 2007-13 Regional Operational Programmes and they are pressing for a higher profile. Further, NUTS III regional authorities, introduced in the 1990s, are gradually establishing themselves as actors in the policy implementation process. Even so, under the (wholly domestically-funded) National Development Plan for 2007-13, the approach to policymaking remains very centralised.

In *Italy*, constitutional reforms and legislative initiatives over the past decade have resulted in the transfer of a wide range of economic development competences to the regions. In the past year, the formulation of a National Strategic Document (NSD) for the 2007-13 programming period and the government's decision to reassert a strong domestic regional policy have produced a new comprehensive strategy for regional development: the 'unitary' regional policy approach. Although sub-national levels will retain powers in steering economic development, this process emphasises the role of the national level, particularly the lead Ministry for Economic Development, in delineating domestic regional policy objectives, ensuring integrated approaches across administrative tiers and aligning domestic interventions and Structural Funds programmes.

In *Luxembourg*, regional policy continues to be administered centrally, though there has been some more general debate about territorial and administrative reform. A new concept of territorial planning envisages a reallocation of competences between administrative levels, with the improvement of critical mass in sub-national administrative units a key objective. Reforms being considered could require mergers of municipalities, the formation of inter-municipal groupings and introduction of regional coordination agencies.

In the *Netherlands*, as part of the implementation of *Peaks in the Delta*, the Spatial Economic Policy Directorate of the Ministry of Economic Affairs moved from an organisational structure clustered around key policy instruments to a geographical mode of operation (based on joint central-regional programme teams). At the same time, the five regional offices of the Ministry have been brought within the core of the Ministry's structure and integrated within the new programme teams. An agreement reached by the new coalition government which took office in early 2007 argues for reducing the number of layers involved in any given policy, distinguishing between the level that formulates policy and the level that implements the task. It also strongly favours decentralisation to the provinces and municipalities, though the practical implications of this are not yet clear.

In *Portugal*, arrangements for the administration of the Structural Funds are an important driver in regional policy delivery frameworks. For 2007-13, a new rationalised and thematic organisation of national programmes will see the establishment of a new layer of governance for the programmes, with coordination bodies set up at the national level and for each programme. Decision-making power in the regional operational programmes will now be concentrated in a single managing body. Also of note, incentive schemes have been

set up at the regional level for the first time and a new project selection committee has been created that includes input from both national and regional programme managers for the first time. More broadly, the government launched the PRACE programme in 2006, focusing on restructuring the central public administration. Though at an early stage, PRACE reforms are potentially far reaching, with objectives which include restructuring central administrative bodies and deconcentration and decentralisation processes.

In *Spain*, there has been a recent process of inter-ministerial restructuring and integration which has helped to bring together the different components of regional policy. More importantly, recent years have seen the government's 'territorial agenda' rolled out. This involves reforms to the Constitution and regional governments' statutes of autonomy, the institutionalisation of regional participation in EU policymaking, and the operation of a Conference of Regional Presidents to provide a forum for high-level debate and interaction. Regional statutes of autonomy to be submitted to central government include some wide-ranging powers that will have an impact on regions' capacity to steer economic development. Taken together, these various developments seem likely to increase the role of the regions with respect to future regional policy.

In *Sweden*, under the new Government, the former Ministry of Industry, Employment and Communications was renamed the Ministry of Enterprise, Energy and Communications, reflecting a new policy focus. Changes have also taken place in the division of regional policy responsibilities within the Ministry, with a separation of tasks between units responsible for programming and strategy, and enterprise-related activities. In recent years, decentralisation processes have included the establishment of Municipal Co-operation Bodies which were granted some regional development responsibilities from the nationally-controlled County Administration Boards. Further changes to regional responsibilities and borders are anticipated following the publication, in 2007, of a parliamentary review. The committee proposed the establishment of new regional authorities that would replace the County Councils and take up their responsibilities, rights to taxation and constitutional status. This would bring a number of tasks into larger regional units with broader policy remits. However, the government has yet to respond to this proposal.

In the *United Kingdom*, the principles of devolved strategy-making and policy delivery, which began in 1999 with Scottish and Welsh devolution, continue. Recent publications shed more light on the government's proposed model for administering regional policy in *England*. Some reorganisation is underway at the central level, with responsibility for achieving the government's regional development targets now integrated in the Department for Business, Enterprise and Regulatory Reform (formerly, the DTI). The publication of the UK government's *Sub-National Review* has confirmed the ongoing expansion of the budgets, policy competences and strategic overview of Regional Development Agencies (RDAs). The amount of funding flowing through the agencies is likely to increase further as they assume responsibility for managing the 2007-13 ERDF programmes. A new framework for improving the efficiency and accountability of regional policy delivery is also set out in the review. Ministers for each region have been appointed to strengthen links between central government and the regions and the role of elected local authorities in contributing to RDA-led regional strategies is being boosted.

A review of *Scotland's* system for the delivery of business support measures is underway. Current discussions centre on the achievement of more efficient and effective delivery of services across authority boundaries, and improved integration with community planning, land-use planning, transport and existing partnership structures. Debate encompasses the role of Scottish Enterprise, Scotland's major economic development agency, and its network of Local Enterprise Companies and their relationship with different administrative units. This includes local authorities but also, potentially, refers to larger sub-national units covering much bigger areas of Scotland. The current emphasis on finding the appropriate spatial scales for policy delivery has been reflected in the recent launch of a government consultation on the proposed creation of new planning authorities, consisting of the relevant local councils for four city-regions in Scotland.

In *Poland*, the ratification of the National Development Strategy 2007-15 and the introduction of a new Law on the Principles of Development at the end of 2006 are likely to have a significant impact on policy administration. Parallel processes of regionalisation and the consolidation of central-level coordination responsibilities are underway. The Ministry for Regional Development has a key role to play in the administration of regional policy, particularly regarding the coordination of various Structural Funds programmes. Regional self-governments should play a more active role in steering development as Managing Authorities for regional operational programmes in the new period. This new implementation system has, though, to overcome tensions concerning levels of financial autonomy and divisions of responsibility between national and sub-national administrative tiers.

In *Norway*, policymaking is traditionally centralised. However, the regional dimension has been gaining more weight in recent years. In 2003, 80 percent of the regional budget (relating to regional aid) was transferred from the Ministry of Local Government and Regional Development to the county level. In partnership with the municipalities, and the regional offices of Innovation Norway, the counties became responsible for deciding how these financial resources should be allocated. Regional programming is also becoming more prominent. Norway's main agency for industrial development, Innovation Norway, now cooperates more closely with municipalities. Moreover, the counties are taking on part-ownership of Innovation Norway with the Ministry of Trade and Industry. The aim is to give Innovation Norway a stronger role within regional partnerships and improve exchange between the regions. A White Paper reviewing the regional/county system of government was discussed in Parliament at the beginning of 2007. A government decision is due in 2008. However, the lack of political consensus for reform and the strength of sectoral interests, suggests that change in the near future is likely to be limited.

### **6.1.2 Comparative points**

This review reveals three basic trends in the allocation of regional policy responsibilities. First, the strong trend towards regionalisation of policy delivery, noted in past reviews, is continuing. This can involve several related processes. In some cases, administrative or political regionalisation is apparent. To varying degrees, state competences for policy delivery are being decentralised or devolved to sub-national tiers. In *Spain*, for instance, the government's 'new territorial agenda' for the future - involving reforms to the

Constitution and regional governments' statutes of autonomy, the institutionalisation of regional participation in EU policymaking and the reform of local government - is likely to increase regions' capacity to steer economic development processes. In *Belgium* the devolution of powers, including for economic development, from the federal level to the regions has been progressing over the past decade. Although federal powers still cover some important areas, the prospect of the regionalisation of further competences, notably concerning employment policy, was opened up during the 2007 federal elections. In the *United Kingdom*, the principles of devolved strategy-making and policy delivery initiated in 1999 are gaining momentum. Increasingly distinctive economic development strategies are emerging from the devolved administrations in Scotland and Wales. In *France*, a long-term process of decentralisation is apparent, with executive powers exercised at regional level by presidents of regional councils and the right to experiment with respect to the delegation of competences. The role of inter-municipality associations (EPCIs) has been growing and was reinforced by the decentralisation law of August 2004. In *Finland*, the revised Regional Development Act has introduced further measures to increase the responsibilities of the regional level in terms of decision-making in regional funding allocations. One significant change is that the annual plans prepared to implement regional strategies are now the sole responsibility of Regional Councils. After they have been approved, certain ministries are now required to negotiate with the regions before preparing their regional development budget proposals - the aim is to increase regional input into national budget decisions. Also in the *Netherlands*, the new coalition agreement has placed administrative decentralisation to the provinces and municipalities on the agenda.

In some countries, processes of administrative regionalisation are closely related to the management and implementation of the Structural Funds. This applies in particular to the *EU12*, where Structural Funds are a vital source of funding for regional development and where preparations for the new programming period have involved a review of management and implementation systems. In *Poland*, the recently-published National Development Strategy 2007-15 stresses the role of decentralised institutions in regional policy delivery, acting within a central policy framework. Prominent in this respect are regional self-governments, which should play a more active role in steering development as managing authorities for the new regional programmes. It should be noted, however, that concerns over variations in administrative capacity and expertise at the sub-national level mean that central implementation structures will continue to play a fundamental role across the EU12 (see below). Despite decreasing levels of funds, Cohesion policy remains an influential factor in boosting the role of sub-national levels in policy administration in *Ireland*. NUTS II Regional Assemblies will continue to be the Managing Authorities for the new 2007-13 ROPs and they are keen to establish themselves as broader arenas for the discussion of regional policy issues. In *Portugal*, there are plans to introduce a more decentralised and strategic approach to some aspects of policy, particularly in the context of the incentive schemes under the 2007-13 NSRF.

A second overall theme is that, in some contexts, regionalisation also refers to the reconfiguration of sub-national administrative boundaries and capacities. There can be tensions of scale between administrative structures and the spaces within which different

economic processes occur. The aim is, therefore, to ensure that delivery frameworks have sufficient flexibility and capacity to adapt to the broadening regional policy agenda, address economic growth factors that can cut across organisational boundaries and administrative maps, and target areas in need of particular support. Different options are being pursued. In some countries, administrative borders are being changed or opened up. In *Denmark*, the launch of a new regional policy approach has involved a reform of local government that reduces fourteen *Amt* to five larger regions, while new legislation gives these regions responsibility for economic development through regional growth fora. In *Sweden*, changes to regional capacities and borders are anticipated after a parliamentary committee observed that responsibilities for regional development were spread over too many actors, and that the current division of counties was ill-suited for effective regional development. The committee proposed bringing a number of tasks into an expanded, inter-sectoral, regional development mandate, although the government has yet to respond to this. Additionally, the recently launched *PARAS* project in *Finland* aims to restructure municipalities and could entail merging municipalities and increasing municipal cooperation. Debate is also underway in *Luxembourg* on territorial and administrative reform and building the critical mass of sub-national administrative units is a key objective.

Equipping regional delivery bodies to respond to complex economic development processes can also include increasing their budgetary flexibility and policy overview. In *England*, the UK government's *Sub-National Review* has confirmed the ongoing expansion of the budgets, policy competences and strategic overview responsibilities of the RDAs. One of the key changes outlined in the review are plans to give the RDAs executive responsibility for preparing new "integrated regional strategies", bringing together their regional economic strategies and the regional spatial strategies. The amount of funding flowing through the agencies is likely to increase further as they assume responsibility for managing the 2007-13 ERDF programmes from Government Offices in the regions.

A third trend that should be noted is that, in some countries, the reordering of policy formulation and delivery responsibilities includes their reallocation to higher administrative levels. In many cases, the state remains a major sponsor of regional development and ministries and departments retain a stake in deciding how their resources are to be spent. As noted in past reviews, the role of the state in providing an overarching framework for regional development interventions is increasing. Even in federal states such as *Austria*, there has long been significant, though informal, national coordination through the activities of the Federal Chancellery (BKA), supported by the Austrian Conference on Spatial Planning (ÖROK). In some cases, recent processes of reorganisation at the central level have sought to strengthen this coordinating role. In *England*, overall responsibility for achieving the government's regional development targets, shared across different departments, is now integrated in the Department for Business, Enterprise and Regulatory Reform. In *Germany*, the two federal-level policy units in the field of regional policy, responsible for Structural Funds coordination and for domestic regional policy are now located in the same Ministry. In *Finland*, a new Ministry for Employment and Industry will be established in 2008, incorporating the units for regional development from the Ministries of Trade and Industry, Labour and the Interior. The growing role of central government in coordinating regional policy has been reflected throughout Europe and is dealt with in more

detail below. In *France*, responsibilities for regional development were recently moved from the Ministry of the Interior to a new “super” Ministry of Ecology, Sustainable Development and Planning. The overarching objective of the new ministry is to align the objectives of sustainable development and economic growth based on reinforced, strategic inter-ministerial cooperation.

Beyond this, renewed central intervention can ensure that funding is allocated according to specific national regional policy objectives or towards specific territories. For instance, in *Italy*, the government has delineated a new, ‘unitary’ regional policy approach. This has been prompted, in part, by the need to differentiate the goals and coverage of domestic regional policy from Lisbon-oriented Cohesion policy objectives. The ‘unitary’ regional policy approach will also ensure investment for lagging or problem areas, beyond what is foreseen – both thematically and spatially – under Cohesion policy. In terms of the implementation of policy, the need to articulate domestic development objectives does not entail a lesser role for regional authorities, but does require a renewed steering role for the central level.

In some contexts, centrally-controlled interventions may be the most efficient means of coordinating a range of development programmes, guaranteeing the strategic overview of interventions or limiting the scope for fragmentation and complexity. In some countries, this refers particularly to the administration of EU programmes. In the *EU12*, increased funding will result in a higher number of programmes, more ambitious development activities, and an increasing number of management bodies involved at central and sub-national levels. In this context, the effective coordination of relevant ministries and departments will be crucial in the new programming period as both sub-national programming bodies and the Commission will require a strong central government partner. In *Poland*, alongside the regionalisation of some implementation responsibilities, the Ministry of Regional Development plays an increasingly pivotal role in the administration of regional policy. This refers particularly to its function as Managing Authority for Sectoral Operational Programmes and the multi-regional programme for the Development of the Eastern Regions, and its role in negotiating Regional Operational Programmes and regional contracts with the regions. In *Greece*, Managing Authority responsibilities for Regional Operational Programmes have been moved from the regional to the central level. The regional authorities which were the old Managing Authorities in charge of the regional programmes have now become intermediate management bodies, with implementation roles.

It should also be noted that reduced levels of Structural Funds can also contribute to more focused, streamlined approaches to implementation. In *Scotland*, centralisation and rationalisation of Structural Funds programming arrangements can be seen as part of a process where the Scottish government is drawing in increasing responsibilities. The Scottish government view is that, with significantly reduced funding, the programmes must be more targeted than before, focusing on activities which contribute towards specific, strategic domestic goals. This approach is inseparable from the changing political landscape of Scotland over the period. The development of a new generation of domestic national

strategies and policies and the experience gained by of the Scottish government since devolution, have had a strong influence on current thinking.

Thus, the allocation of responsibilities for the administration of regional policy across administrative tiers continues to evolve. Processes include the ongoing regionalisation of frameworks for policy development and delivery. Some governments have begun to renounce direct control over some regional development interventions through processes of devolution, decentralisation or regionalisation and/or the creation of semi-autonomous agencies charged with arms-length delivery. However, 'rescaling' processes can incorporate other dynamics. In some countries, efforts to address different factors of economic growth at the appropriate spatial levels are prompting the reconfiguration of administrative boundaries, organisational relationships and resources at sub-national levels. Moreover, central governments retain a legitimate interest in how regional policy is delivered. Indeed, in some cases, the role of the central level is being reasserted either in a coordinating function or where processes of rationalisation have involved reallocating management and implementation responsibilities to higher administrative levels.

## **6.2 The coordination of policy**

Coordination remains a crucial issue for regional policy administration. Regional economic development is no longer considered the responsibility of just one organisation, be it central government or a regionally-based development agency or organisation. Instead, a range of institutions have become involved, some of them local, some regional, and others acting on behalf of national or EU institutions. With regional policy in a state of transition throughout Europe, various approaches to coordination can be identified. The purpose and operation of mechanisms used to coordinate regional policy across and between different organisations, funds, programmes and levels varies considerably according to domestic administrative contexts. Moreover, changes in levels of funding, both domestic and EU, and how this funding is allocated to objectives, themes and territories creates a dynamic environment with changing configurations of regional policy stakeholders. The following section provides a country-by-country review of recent coordination trends, summarised in Table 9.

### ***6.2.1 A country by country review of change***

In *Austria*, the Austrian Conference on Spatial Planning (ÖROK) is key to coordination across and between levels of government. ÖROK operates under the auspices of the federal chancellery (BKA) and brings together all the relevant high-level actors within an informal, consensus-based coordination framework. Below this, various committees have been established to fulfil specific preparatory tasks and initiate discussions and debates. In general, EU programmes have had a significant impact on coordination arrangements. 'Governance' has been defined as a horizontal priority under the Austrian NSRF (STRAT.AT). Following positive experiences in the preparation of STRAT.AT, there are plans to maintain some mechanisms into the current programming period. This includes annual monitoring committee meetings of all responsible actors of the *Länder* involved in the Competitiveness and Employment programmes to discuss strategic issues. There is also recognition that

evaluations of the programmes have been helpful not only for the design of new programmes but more generally for increasing coordination.

In *Belgium*, there is relatively little national-level coordination of regional policy, with the Flemish and Walloon regions now able to design and implement a very wide range of policies independently, including regional policy. On the other hand, efforts can be observed in both regions to join up instruments and resources. This can be seen, for instance, in the recently-introduced “Flanders in Action” programme as well as in the “Future Contract” in Wallonia, which strives to link together the various components of economic development. Various ministries are also being merged in Wallonia and the number of policy delivery agencies reduced.

In *Denmark*, the *modus operandi* of the new regional policy model is via multi-level partnerships. The newly-created regional growth fora bring together local authorities, regional councils, private sector organisations and knowledge institutions in a partnership-based framework. In terms of vertical coordination, new legislation has established closer statutory links between government levels. Again, the regional fora play a pivotal role: they are funded by local, national and EU levels; they must sign agreements to ensure their strategies fit with national objectives; they must consult with local authorities; and they have helped to commit a wider range of central government departments to supporting regional development strategies. Finally, coordination of domestic and EU-funded regional development activities has been strengthened through the allocation of responsibilities for the administration of Structural Funds to the fora.

In *Finland*, policy coordination is deeply embedded in the regional development process. Although the national level provides the overall goals and priorities for the regional-level programmes and for Ministries’ plans and budgets, enhanced coordination has been introduced over the past years. At the regional level, strategic regional programming encourages the key regional development actors (the Regional Council, the representatives of State bodies in the region and the social partners) to formulate plans and decide on regional programme priorities jointly. The Regional Management Committee in each region plays an important role in generating a consensus in the region around the programme. The revised Regional Development Act has further increased coordination by increasing levels of cooperation between the central and regional levels, particularly in the allocation of regional funding. Although coordination between different policy instruments remains a challenge, both national and EU policies have adopted formal negotiating committees to enhance their respective coordination.



Table 9: Recent changes in the coordination of regional policy

Austria	Spatial planning is a <i>Land</i> function, coordinated by the BKA and supported by non-binding ÖROK recommendations. The NSRF has governance as an implementation strategy. Coordination structures used to prepare it will be maintained. Evaluation viewed as coordination instrument.
Belgium	Regional policy coordination has moved to the regional level with the replacement of federal regional aid laws. In Flanders, the 2006 Flanders in Action programme has encouraged a more inclusive and cooperative approach. In Wallonia, the economic development competencies of different ministries are increasingly coordinated and the number of agencies has been reduced.
Denmark	Regional growth fora are key to enhanced horizontal and vertical coordination. As partnership-based bodies, they support regional and local coordination, alongside regional councils. Projects are funded by others (demanding coordination). Signed agreements ensure strategies fit with national priorities and commit central government departments more to regional activities.
Finland	Policy coordination central to regional development via partnership-based regional programmes and a strong coordination role for special programmes. The revised Regional Development Act has increased central cooperation and inter-ministerial restructuring is planned. Central-regional coordination has been strengthened, increasing regional inputs into funding allocations.
France	DIACT, formerly DATAR, has been a territorial development coordination institution since 1963. Its role changed in 1982 with new state-region planning contracts (CPER) to coordinate central and regional policies. Regions are privileged partners of the centre in the CPER. There is growing emphasis on coordination of CPER with EU programmes (also within DIACT).
Germany	The regional policy GA continues to provide a rules-based coordination framework, ensuring that regions with the same levels of problem are treated equally. It also helps German-EU coordination and coordination with other policy fields. A number of changes are being introduced to the GA, strengthening coordination between federal and <i>Länd</i> levels.
Greece	Despite some moves to involve the regional level more in policy administration, traditional top-down coordination is being strengthened under the 2007-13 EU programmes. A new National Coordination Authority (NCA) will exercise a range of powers. Though national cooperation has been limited, new inter-ministerial coordinating committees are being set up to assist the NCA.
Ireland	The institutional framework supporting regional policy is unchanged in recent years, though the need to improve synergies and cooperation between agencies is recognised, with a more integrated approach to indigenous industry and a greater stress on partnership. The National Spatial Strategy provides a framework for coordinating the activities of central departments.
Italy	Following recent regionalisation processes, the national level plays a stronger coordination role. The launch of a new 'unitary' regional policy, aligning national and EU goals, instruments and implementation, has been accompanied by new vertical and horizontal committee structures, notably a national coordination committee overseen by the Ministry for Economic Development.
Luxembourg	Coordination is not generally an issue given the country's centralised delivery approach and size.
Netherlands	Policy coordination is an important under <i>Peaks in the Delta</i> . It brings together national strategy documents (spatial planning, transport, urban, industrial estates, innovation, tourism) and applies them in a coordinated way in a regional context. Coordination has been supported by the regional organisation and orientation of the Spatial Economic Policy Directorate of the MEZ.
Portugal	Policy coordination takes place via the CSF. Arrangements for coordinating 2007-13 programmes have led to new national coordination bodies that will increase inter-ministerial cooperation. Also a March 2006 programme for restructuring central public administration will help merge and reorganise public agencies as part of a broader attempt to coordinate policy delivery.
Spain	The government's strong emphasis on territorial governance has increased the weight attached to horizontal and vertical policy coordination. See, e.g., national/regional participation in the Conference of Regional Presidents and regional representation within EU policy-making bodies.
Sweden	National-regional coordination supported by 2001 legislation listing eight policy areas that must take the regional dimension into account. Also, partnership-based Regional Growth Programmes support a more coordinated approach in the regions. Coordination has also been promoted in the NSRF. A recent parliamentary review has proposed more coordination via larger regional units.
UK	The SNR has confirmed increasing budgetary autonomy to English RDAs, with clearer national-regional coordination mechanisms. These include a regional funding allocation exercise (to feed regional priorities into national decisions), developing closer working relationships between RDAs and central and local governments and procedures to make RDAs more accountable.
Poland	Although regional contracts help in central-regional coordination, the coordination of EU programmes is key. The Ministry of Regional Development is a central coordinating body under new legislation and implementation arrangements for 2007-13. With regions responsible for their own programmes, centre-region coordination is a growing issue. The implementation of central government limits, rules and guidelines could become a test for centre-region relations.
Norway	Inter-ministerial cooperation on regional policy has received more stress in recent White Papers and a permanent Cabinet sub-committee on regional development has been established. Regional coordination is via partnership-based regional programmes but is uneven in practice.

In *France*, the inter-ministerial delegation DIACT, formerly DATAR, functions as the main coordinating body at the national-level and as a partner of the regions in developing and implementing planning documents, notably state-region contracts (CPER). Since the reform of the Structural Funds in 1988, DIACT has also negotiated and distributed EU funding. With the start of the new programming period, increasing links between national and EU regional policies have become apparent. Based on the NSRF and the Lisbon and Gothenburg agendas, the new state-region project contracts and Structural Funds programmes will be implemented in a complementary way. The new contracts have the same timeframe as the OPs and are based on a joint territorial analysis. Some regions are considering the establishment of joint programming committees for CPER and OPs and DIACT is considering how best to coordinate the two policies internally, e.g. by bringing the responsible teams closer together.

In *Germany*, the regional GA continues to provide a framework for coordinating interventions. It allows a systematic, rules-based approach to aid and helps coordinate interactions between EU and domestic regional policy (a process boosted by the recent transfer of Structural Funds coordination tasks to the Federal Ministry for the Economy and Technology, where responsibility for the regional GA lies). The GA also helps to coordinate other policy fields that have spatial effects. A number of changes to the regional GA have been introduced as a consequence of Germany's federalism reform in 2006. The new text in the Constitution emphasises the coordinating role of the regional GA and the annual GA Framework Plan is to be replaced by a multi-annual Coordination Framework that defines the areas and activities eligible for GA support; the conditions, type and intensity of funding; the provision of federal resources between *Länder*; and procedures for reporting and evaluation. Moreover, the GA Planning Committee will be renamed the GA Coordination Committee. The Chair of the Committee will in future report regularly to the *Bundestag* on the implementation of the Coordination Framework.

In *Greece*, the tradition is for administrative centralisation, with top-down coordination. This has been strengthened by new arrangements for Cohesion policy administration for the 2007-13 period. A new National Coordination Authority (NCA) is being established which will have a broad jurisdiction, with overall responsibility for coordination, programming and implementation as well as for the guidance of the Managing Authorities, with a view to ensuring the effectiveness of management and implementation. Though inter-ministerial coordination has traditionally been limited, new committees have been established to assist the NCA, including a new body to help coordinate programming and the implementation of state-aid co-financed actions.

In *Ireland*, the Department of Finance has the key coordination role for the National Development Plan and EU Structural Funds. In addition, since its launch in 2002, the National Spatial Strategy (NSS) has provided a framework for a more coordinated approach to spatial planning. It heads a hierarchy of spatial plans at national, regional and local levels. At the national level, departments and their agencies are embedding the policies contained in the NSS in their programmes and investment activities and an inter-departmental committee has been established to oversee and coordinate this. Across levels of governance, effective coordination and partnership is seen as a requirement for future economic growth, not least as it encourages the pooling of resources. Coordination is

increasing between Enterprise Ireland, IDA-Ireland and partners such as the Science Foundation Ireland and FÁS (National Training and Employment Authority).

In *Italy*, the preparation of the NSRF (known as the National Strategic Document - NSD) and the launch of a new 'unitary' regional policy for 2007-13 have increased the complexity of the implementation framework. In this new environment, the importance of coordination across and within levels of governance, policy sectors and domestic and EU funding streams is set to grow. New committee structures are seen as vital to horizontal and vertical coordination. Notably, the NSD aims to establish a series of thematic committees which, through the participation of national and regional authorities, should aid the coordination of policy implementation. The most important of these committees is the "National Committee for the Coordination and Monitoring of Unitary Regional Policy", to be overseen by the Department for Cohesion Policy within the Ministry for Economic Development. In addition, "Direction and Implementation Committees" are planned for different policy sectors along with a "National Table" for the coordination of national-level regional policy.

In *Luxembourg*, regional policy is generally administered centrally without involving local actors. However, debate is underway concerning territorial and administrative reform, including the creation of new coordination mechanisms. For instance, to ensure better coordination between the municipal and central levels, the creation of "public bodies of regional coordination", comparable to the French prefectures, is being proposed. They would be composed of municipal representatives and a territorial state representative and would deal with issues relating to public infrastructure and services, the implementation of integrated transport and land use planning and the regional coordination of state subsidies.

In the *Netherlands*, the *Peaks in the Delta* programme supports regional policy coordination in several respects. It brings together a wide range of national strategy documents (in the spatial planning, transport, industrial estates, innovation, urban and tourism fields) and applies them in a coordinated (programme-based) way in a regional context. Coordination has also been enhanced by the new regional organisation and orientation of the Spatial Economic Policy Directorate of the Ministry of Economic Affairs. Through discussions at the regional level, a national vision has been formed of regional economic development potential, providing a framework to coordinate future policy implementation in the regions in the national interest.

In *Portugal*, policy coordination takes place in the context of EU Cohesion policy. The new, rationalised and thematic organisation of national OPs for the 2007-13 period will require a far higher degree of inter-ministerial coordination, with a lead Ministry taking a coordinating role for each programme. In addition, a new layer of global governance for the OPs has been established through the setting up of a coordination body at the national level and for each programme. More broadly, the government's programme for restructuring the central public administration, launched in 2006, aims to coordinate policy delivery by creating shared services between ministries, merging and restructuring agencies and redefining and unifying the functions of the state administration in the regions.

In *Spain*, the current focus on issues of territorial governance highlights coordination issues. An important intergovernmental coordination mechanism which has emerged is the

Conference of Regional Presidents which brings together representatives of the regions and central government. The government's commitment to the institutionalisation of regional participation in EU policymaking is also significant. An agreement has been approved to allow one regional government representative to participate in the Council of Ministers alongside central government. This has led to increased coordination and has also elevated the role of sectoral conferences (the main sectoral mechanism for domestic intergovernmental relations) in EU policymaking, given that the criteria and modalities for regional representation and rotation are decided there. This has also stimulated new inter-regional coordination on EU policy-making.

In *Sweden*, the Regional Growth Programme structure, along with the partnership network that brings together representatives from the private and public sectors, state authorities and the non-profit sector, is expected to promote an environment of policy co-ordination, involving a more holistic and effective approach to regional development. The NSRF highlights a clear commitment to further coordination of EU and national policies, and has served as a guide in the preparation of Regional Growth Programmes and in the work of the national authorities. Looking to the future, a recent parliamentary review into public sector administrative structures has proposed the coordination of a number of tasks through establishing a broader, more inter-sectoral, regional development mandate, with larger regional authorities replacing the current county councils. However, it remains to be seen whether and how this recommendation will be taken forward.

In the *United Kingdom*, following the government's *Sub-National Review*, the coordination challenge is being addressed through a combination of programme-based mechanisms, partnership-working and target-setting devices that have the flexibility to work across different administrative boundaries and scales. RDAs remain crucial to the coordination of policy. Vertical coordination is being rationalised through the simplification of central government targets for RDA activities, with a clearer focus on economic growth objectives. There are also plans to expand the Regional Funding Allocation (RFA) exercise, where central government has asked regions to provide budget estimates for regional plans in order to enhance the coordination of central funding and regional implementation. The role of RDAs in horizontal coordination is also increasing. They have responsibility for preparing new regional strategies that integrate several regional planning documents, as well as responsibility for managing the 2007-13 ERDF programmes. The government is also encouraging greater involvement of local authorities, cities and other partners in the formulation and implementation of regional strategies.

In *Norway*, increased emphasis on policy coordination has been evident in White Papers published in 2005 and 2006. An important new mechanism is a permanent Cabinet sub-committee to help sectoral policy contribute more to district and regional development goals. This is the first permanent sub-committee of the Cabinet on the theme of regional development. It played an important role in the development of the 2006 White Paper which identified a range of joint policy actions to regional development ends. However, sectoral ministries remain very powerful and the coordination of funding streams and support schemes at the regional level continues to be challenging.

In *Poland*, regional contracts exist as legal agreements between the regional government and the central government and provide a coordinating framework for central government support for the development of the region. In addition, important coordination mechanisms arise out of the administration of EU-funded programmes, including national and regional monitoring and steering committees, conferences and negotiations between programme partners from national and regional levels. The Ministry for Regional Development has a key coordinating role to play in this respect as Managing Authority for some programmes and as the central government representative in negotiating regional operational programmes (ROPs) with regional self-governments. The Ministry for Regional Development aims to coordinate regional, national and EU development objectives in the ROPs by issuing guidelines on the share of funding that can be allocated to different ROP activities.

### **6.2.2 Comparative points**

A basic three-fold typology can be used for a comparative assessment of recent coordination processes in the regional policy field: national-level coordination, regional-level coordination, and national-regional coordination.

At the national level, the coordination of management and delivery bodies involved in different funding streams and support schemes is strengthening. More sophisticated conceptualisations of the regional policy challenge are drawing a broader range of sectors and interests and responsible ministries, departments and agencies into different coordination mechanisms. In some cases, central-level coordinating structures play a crucial role. In *Austria*, national coordination is well-established through the activities of the Federal Chancellery (BKA), supported by the Austrian Conference on Spatial Planning (ÖROK). In *France*, the inter-ministerial delegation DIACT, formerly DATAR, functions as the main coordinating body at the national level. In *Norway*, a permanent Cabinet sub-committee helps sectoral policies contribute more to district and regional development goals. And in *Italy*, new central level committees are being established to coordinate the country's new 'unitary' regional policy.

In some countries, the need to manage expanding Structural Funds programmes has prompted increased coordination at the central level. Though inter-ministerial coordination has traditionally been limited in *Greece*, a new National Coordination Authority is being established for the 2007-13 period. This will have a broad jurisdiction with overall responsibility for coordination, programming and implementation, with a view to ensuring the overall effectiveness of management and implementation. In *Portugal*, a new, rationalised and thematic organisation of national operational programmes will require a far higher degree of inter-ministerial coordination, with a lead Ministry taking a coordinating role for each programme. A new layer of high-level governance has been established through the setting up of a coordination body at the national level and for each programme.

Elsewhere, formal agreements or shared targets help to coordinate the regional outputs of various ministries and departments. In the *United Kingdom*, the basic objectives of regional policy are set by the Regional Economic Performance Public Service Agreement (REP PSA), to which the Treasury, the Department for Business, Enterprise and Regulatory

Reform (BERR, formerly DTI) and the Department for Communities and Local Government (DCLG) are joint signatories. The REP PSA includes high-level targets that take account of key aims and objectives as well as outcome-focused performance targets. Although less systematic, the 2001 regional policy Bill in *Sweden* and the 2002 Regional Development Act in *Finland* explicitly identified a list of central government ministries which are now required to take regional development concerns into account when formulating national policies. In *Denmark* new partnership agreements have been established to help align national and regional development objectives. Although these can be viewed as important central-regional coordination instruments (as discussed below), they have also increased awareness among - and coordination between - various central government departments which have not traditionally seen themselves as having a regional remit.

Finally, the formulation and implementation of new national regional policy programmes and strategies can provide the impetus and framework for greater central coordination. In *Ireland*, for instance, national government, departments and their agencies are embedding the policies contained in the National Development Plan and National Spatial Strategy in their programmes and investment activities. In the *Netherlands*, national-level policy coordination has been achieved by incorporating a wide range of national strategy documents within the *Peaks in the Delta* approach, before applying the resulting priorities in a coordinated way via regional programming.

With conceptualisations of the regional policy challenge become more sophisticated and arrangements for policy delivery incorporating a growing sub-national dimension, coordination mechanisms have become increasingly important at the regional level. A variety of approaches are being taken. The process of formulating and implementing regional development programmes provides a crucial coordination mechanism in many regions. In *Finland*, strategic regional programming provides a coordinating framework, led by the Regional Management Committee, around which a range of regional and local development actors can generate consensus on regional policy directions. In *England*, regional-level coordination is being boosted by the integration of different regional plans into a single, overarching Regional Economic Strategy, which will be the responsibility of the RDAs. The government is also encouraging greater involvement of local authorities, cities and other partners in the formulation and implementation of regional strategies.

Often, the programming process is accompanied by the formation of regional partnership bodies and networks. Recent reforms in *Denmark* mean that statutory regional growth fora are increasingly important actors in the regional policy process. In each region, these fora bring together local authorities, new regional councils, private sector organisations and knowledge institutions in partnership-based bodies to provide inputs to the elected regional councils with regard to development programmes. Similarly, in *Sweden*, the Regional Growth Programme structure encourages greater policy co-ordination at the regional level. This is associated with the development of partnership networks that brings together representatives from the private and public sectors, state authorities and the non-profit sector.

At this point, it should be noted that EU programmes have had a significant impact on some domestic coordination arrangements. The partnership principle promoted in Structural

Funds' programming has provided a model for some of the partnership bodies noted above. The process of administering EU programmes themselves can bring regional stakeholders together in a coordinated way. In *Austria*, for instance, some of the approaches used in coordinating inputs into the 2007-13 NSRF will be maintained as the programmes are rolled out. This includes annual monitoring committee meetings of all responsible actors of the *Länder* involved in the Competitiveness and Employment programmes. Moreover, there is recognition that evaluations of the Austrian programmes have been helpful not only for designing the new programmes but more generally for increasing coordination. The desire to align EU and domestic funds is also acting as a spur for greater regional coordination. In *France*, new state-region contracts and Structural Funds programmes will be implemented in a complementary way, based on joint territorial analysis and operating in the same timeframe. Some French regions are considering the establishment of joint programming committees for domestic and EU development programmes. In *England*, the coordinating role of RDAs will be strengthened as they assume responsibility for managing the 2007-13 ERDF programmes. Finally, in *Poland* and other *New Member States*, the preparation and management of EU programmes has introduced Monitoring and Steering Committees as new arenas for regional coordination.

Finally, coordination arrangements between levels of government are crucial, particularly in a regional development context which is characterised by different economic processes at various spatial scales and complex interactions and incentives between national and sub-national actors. The operation of mechanisms used to coordinate regional policy between central and regional levels varies according to the role allocated to the regional level in policy-making and implementation.

In *unitary* systems, the aim of national-regional coordination tends to stress the scrutiny of regional plans through nationally set frameworks or guidelines. In *England*, although RDAs are assuming power to set strategic priorities and allocate funding, they must also take central government policy objectives into account and meet performance targets set by national government. There are also plans to open out the Regional Funding Allocation exercise, where central government has requested that English regions outline their plans and budgets for development. Across the EU, the clarity and coherence of links between central funds provided to regions and regional policy outcomes is clearly a coordination priority. In *Finland*, the revised Regional Development Act has further increased coordination between the central and regional levels, particularly in the allocation of regional funding. In *Poland*, the Ministry for Regional Development is attempting to coordinate regional, national and EU development objectives in regional operational programmes by setting guidelines on the share of funding that can be allocated to different programme activities.

In *devolving or decentralising unitary systems*, coordination mechanisms may serve to ensure that national-level policy decisions take regional priorities into account. This can be accomplished through the use of national-regional agreements, with varying levels of formality and legal status. In *Denmark*, a process of 'coordinated decentralisation' is arguably taking place. New legislation has introduced strong statutory links between government tiers. Regional growth fora are automatically incorporated into coordinating arrangements as they rely on national and local levels to fund their initiatives and they now

sign agreements to ensure that their strategies fit national development objectives. They also draw in a wide range of central government departments in developing and implementing their regional strategies. In *France*, formal contracts between the central state and each regional council aim to ensure the coherence of national and regional development plans. Voluntary agreements, where legal rights and obligations are absent, are used in other countries to bring different actors and levels together and create a basic consensus on regional policy directions between national and sub-national levels. It should also be noted that, in *Poland*, regional contracts exist as legal agreements between the regional governments and the centre.

Finally, in *federalised or regionalised* systems the purpose of coordination is to ensure that regional policies, which are largely responsibility of the regional level, do not conflict with national development goals. This can be done by directly involving the national level in the planning and/or financing of regional development initiatives. One instrument is joint representation, in which an institution created by one level of government will include representatives of other levels. In *Austria*, there are examples of joint development agencies which bring together the federal level and *Länder*. In *Spain*, the Conference of Regional Presidents involves representatives of the regions and central government. Moreover, regional-level participation in EU policymaking, alongside central government in the Council of Ministers, is being formalised. Joint financing is another means to directly involve the national level in regional policy and facilitate coordination. A notable example of this is the joint regional policy task (GA) in *Germany*, where there is increasing emphasis on coordination between levels: the new text of the German Constitution emphasises that the federal law on the regional GA should include details of coordination mechanisms; the annual GA Framework Plan is to be replaced by a multi-annual Coordination Framework; the GA Planning Committee will be renamed the GA Coordination Committee; and, there is now a requirement that the Chair of the Committee should report regularly to the *Bundestag* on the implementation of the joint Coordination framework and the regional GA in general.

To sum up, trends toward administrative and policy rescaling mean that a variety of organisations at different administrative levels are now involved in regional policy delivery; rarely can individual bodies "go it alone". Within regional policy, legal, institutional and administrative arrangements are emerging to govern the relationships between national and sub-national levels and achieve both vertical and horizontal coordination. This is being driven by a range of factors. Strengthening coordination can be seen as: a pragmatic response to the need to pool financial resources, administrative powers or political accountability; a response to concerns over fragmentation and complexity in the regional policy delivery system; or a means to improve strategic overview and align different funding streams and support schemes. However, there is no optimal arrangement that fits all contexts. A range of mechanisms can be identified (including coordination bodies, agreements or contracts, programme frameworks, partnership networks, common guidelines or targets, and joint financing). It should be noted that there is an inherent tension between the desire to develop an inclusive model of regional policy, which encourages the participation of a variety of actors from different levels, and the concern that the regional policy field may become too complex or deadlocked. How changing



configurations of players and agencies at various levels are coordinated and managed, vertically and horizontally, remains a key challenge for policy-makers.

## 7. CONCLUDING POINTS AND ISSUES FOR DISCUSSION

The period since the start of 2006 has been one of review, revision and reform. There has been a very high level of regional policy change in response to the need to develop NSRFs and associated operational programmes for the 2007-13 period, the introduction of new regional aid maps and related regional aid regimes and continuing domestic drivers for change. These include ongoing globalisation pressures, an increasingly pervasive competitiveness agenda, concerns about broader spatial development issues (such as the role of cities in economic development and the emergence of sub-regional problems) and debates about the delivery of policy and more general regional reform processes.

This review has highlighted four broad themes. First, in a number of countries there have been important changes to the *nature* of regional policy. Overall, the trend has been for the focus on regional programming and strategy development to increase – in part, related to EU influences, but also reflecting the growing domestic emphasis on endogenous development, aiming to maximise the contribution of individual regions to national growth. At the same time, the policy weight attached to regional aid has been falling, not only in response to competition policy pressures but also due to broader budgetary constraints, concerns to maximise the added value of support (which has become more selective and targeted) and moves away from supporting individual projects and towards improving the business environment more generally.

Second, in a range of countries, regional policy *objectives* have been reformulated in preparation for the new EU programming period. In virtually all cases, the main regional development priority is to enhance regional (and hence national) competitiveness. This was also the key focus in those countries where regional policy was reviewed and regional policy goals revised over the 2001-05 period. On the other hand, equity concerns continue to be highlighted nearly everywhere and, in some countries, have been given extra weight as EU policy has become more Lisbon-oriented. In addition, in many countries the issue of regional balance remains important, ensuring equitable service provision across all regions. Sustainable development is also moving up policy priorities.

Third, the *spatial orientation* of regional policy is changing as a consequence of the growing importance of all-region approaches. Reflecting their much-reduced population coverage in most countries, the new regional aid maps are more targeted and also have lower award ceilings. Together with generally smaller regional aid budgets, this has downgraded the significance of regional aid in many countries. As all-region approaches gain in prominence, a key issue concerns just where regional policy funding goes. The early evidence points to a degree of resilience with respect to funding flows, with the worst-off regions favoured. Finally, territorial typologies seem to be growing in complexity, covering not only different types of area (urban, rural, mountainous, coastal) but also sub-regional issues. More than this, growth- and productivity-related policies may require different levels and forms of spatial intervention. The geography of regional policy seems bound to remain a challenge.

Fourth, with respect to the *delivery* of regional policy, two main trends have been identified. On the one hand, there has been a progressive upgrading of the regional level within regional policy, associated in some countries with regional reform processes. At the same time, the national role in regional policy administration remains strong and, in a number of countries, has been enhanced. On the other hand, and related, there have been a series of developments which aim to improve policy coordination – at the national level, in the regions and between the centre and the regions. Given the growing breadth and depth of regional policy and, related, the range of organisations at various levels involved in its delivery, policy coordination can be expected to play a central regional policy role in the years to come.

In the context of this overview, there are a number of issues which arise for discussion:

- Of key interest, to what extent do the broad policy trends which have been highlighted fit within regional policy developments in your own country? To what extent is your country in or out of line with the trends identified – and why?
- To what extent do you think that the new policy approach, especially with respect to the competitiveness agenda, is suitable for overcoming the regional problem in your country – and in Europe more generally?
- It has been suggested that regional policy developments in the period since 2000 represent a shift in paradigm, involving new goals (competitiveness-oriented), a new geography (all-region), new governance (multi-level) and new policy instruments (programme-based). To what extent do you think that there has indeed been such a significant shift in regional policy approach in your country in recent years? Why (or why not) has there been such a change and how sustainable do you think it will be in the longer term?
- Part of the reason for the significant volume of change in the report this year has been that new EU policy frameworks have been introduced – with respect to both Cohesion policy and Competition policy. What is the relationship between EU and domestic regional policy priorities in your own country? To what extent do you think that the EU has driven the domestic regional policy agenda? Alternatively, are EU policy frameworks supporting domestic policy processes? Are domestic regional policy priorities and approaches evolving independently of EU policies?