Regional Policy in Europe: Divergent Trajectories?

Annual Review of Regional Policy in Europe

EoRPA Paper 11/1

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Preface

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

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Finland

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

France

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

Germany

- Bundesministerium für Wirtschaft und Technologie (Federal Ministry for the Economy and Technology), Berlin
- Ministerium für Wirtschaft, Energie, Bauen, Wohnen und Verkehr des Landes Nordrhein-Westfalen (Ministry for the Economy, Energy, Construction, Housing and Transport of the Land of Nordrhein-Westfalen), Düsseldorf

Italy

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

Netherlands

- Ministerie van Economische Zaken, Landbouw en Innovatie (Ministry of Economic Affairs, Agriculture and Innovation), 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

Switzerland

- Staatssekretariat für Wirtschaft (SECO, State Secretariat for Economic Affairs), Bern

United Kingdom

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

The research for this report was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2011. The EoRPA research programme is coordinated by Professor John Bachtler, Fiona Wishlade and Heidi Vironen.

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For each of the above countries, a separate country report is available to EoRPA partners via the EoRPA website, providing fuller, country-specific information on the themes covered in this report.

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

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

Disclaimer

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

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Executive Summary

Introduction

The aim of this report is to review recent changes in domestic regional policies across Europe, focusing on policy change over the 2010-11 period. The report has seven main sections covering the following themes: regional disparities and problems; the main regional policy developments in 2010-11; changes in policy objectives; the spatial orientation of regional policy; regional policy instruments; the implementation of regional policy; and the evaluation of policy. Within these chapters, particular attention is given to a number of themes: the emergence and relevance of the place-based concepts in regional policy; the use of new geographies and spaces for designing and implementing regional development interventions; the use of 'new financial instruments' (or non-grant forms of support) in regional development policies, such as risk or venture capital instruments or revolving funds; and the evaluation of regional policy in European countries and recent evaluation results. A final section draws together the main issues emerging and presents questions for discussion.

The report is based on research in individual European countries and presented in a series of country reports that have been provided separately (see EoRPA Paper 11/2). The paper is supported by a series of comparative tables that summarise policy changes across Europe (also provided separately in EoRPA Paper 11/3).

Analysis of regional patterns and trends in Europe

The pattern of regional disparities at the European scale has broadly tended towards convergence in the period up to the global financial crisis, although at a country level the pattern has been more complex with some countries seeing diverging regional performance, especially where a strong capital region has been pulling away from the rest of the country. Analysis of smaller scale regions shows that serious disparities exist in many of the smaller countries as well, and also show the more complex patterns in larger countries where differences between large geographic regions, urban-rural divides and sectoral patterns of development all combine to contribute to complex geographies of growth.

Categorising regions by state of development and growth shows the broad trend to convergence as many of the less-developed regions made ground during the 2000s, and the stronger regions slipped back in relative terms. However, a group of old-industrial regions continued to decline relatively compared with both less-developed and richer regions, and are a source of some concern to policy-makers.

The recession has had a major impact across almost all regions in Europe and has prompted an interest in regional resilience. There are several ways to assess resilience, but here the focus is on resistance to the initial shock and an ability to bounce back to growth relatively quickly. Other assessments such as ability to learn and adapt and the nature of the return to growth can only be done after more data have become available. Initial analysis shows a very mixed pattern of impacts with the national context playing a significant role.

Generally, metropolitan regions were more resistant to the shock, but among other kinds of regions the picture is confused and sometimes contradictory, with manufacturing regions performing well and badly depending on the country. Looking to the medium-term recovery, it is again the metropolitan economies and export-oriented manufacturing regions which are expected to recover most rapidly even if some of the latter were quite badly affected by the initial recession. While some more rural regions saw only modest impacts at the outset, their future prospects for growth are also limited due to their weak innovation potential.

The main developments in regional policy, 2010-11

The effects of the financial and economic crises continue to cast a long shadow over regional development in many European countries. There are divergent trends in terms of recovery at national and regional levels, and in many countries the focus of policymaker attention continues to be on fiscal consolidation to reduce budget deficits and accumulated debt, as well the slow pace of growth. The position of regional policy varies greatly across Europe. In many countries, policy-makers are maintaining a focus on longer term objectives of regional competitiveness and growth, and/or addressing regional disparities. Conversely, there are examples of regional policy coming under pressure, with the abolition of policy frameworks, institutions or instruments and budget cuts.

One of the most important trends over the past 1-2 years is the emergence, in parts of Central and Eastern Europe, of new national regional policies that are distinct from EU Cohesion policy. Several EU12 Member States (Poland, Slovakia, Slovenia, Czech Republic) are now developing or debating new domestic regional policy frameworks, partly to provide a strategic basis for the next generation of Structural and Cohesion Funds programmes after 2013, but also to determine or guide broader, national approaches to regional development.

These legislative developments provide further examples of a regional policy paradigm focusing on regional competitiveness, through territorially differentiated and integrated interventions, delivered through multi-level systems of governance. The paradigm has been reflected in policy reforms for more than a decade in countries like Denmark, Finland, France, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom (*England)*.

The three Nordic countries – Finland, Norway and Sweden – have long established regional policies and share a strong commitment both to promoting regional competitiveness nationwide and to reducing regional disparities, especially via support for economic development in the sparsely-populated northern regions. Although the policy response is distinctive to each country, they share a tendency for regional policy change to be evolutionary, to be updated on a regular cycle, and to be based on analysis, evaluation and extensive consultation. All three countries are currently at various stages of policy reform with respect to regional development, and policy changes have also been introduced in Denmark.

Beyond the Nordic countries, the past 1-2 years have seen the emergence of new national and regional strategic plans – although of varying status, time period and influence. They include a new national plan in Italy, and sub-national plans in Belgium (*Vlaanderen* and

Wallonie) and the United Kingdom (*Scotland* and *Wales*). Other plans, recently issued or under development, have more of a conceptual or aspirational character, setting out challenges for the long-term and broad spatial development objectives, over periods of ten or 20 years (Austria, Poland, Estonia, Latvia and Romania). Key themes running through many of the plans are globalisation, energy security, sustainable development, climate change and demographic change.

Elsewhere, regional policies in some countries have come under severe pressure as a result of the economic recession. The Netherlands and the United Kingdom (*England*) are the most prominent examples, with wholesale policy change including the abandonment of regional policy instruments, the abolition of regional development institutions and severe cutbacks in funding. Budget cuts have also been experienced in Italy, Spain, Ireland, Greece and Latvia.

Finally, there have been a series of refinements to regional policy, involving changes to instruments and spatial coverage (Germany, Portugal, Switzerland, France, Denmark, Czech Republic, Slovakia). Many of these are attributable to the economic crisis, with efforts being made to provide capital for businesses or to provide support to particular areas affected by restructuring and job losses.

The objectives of regional policy

Assessment of the objectives of regional policy in EU Member States reveals some changes in the scope of regional policy objectives, shifts in the emphasis placed on particular goals and the recent inclusion or exclusion of certain issues or themes. These changes have been prompted by several factors, including: the impact of the economic crisis, political change, preparations for the next Cohesion policy financial perspective and the increasing prominence of the Europe 2020 agenda. Changing policy objectives are, in some cases, also related to new strategic thinking and conceptual debates.

There is some variation among European countries in terms of the general scope and ambition of regional policy objectives. In the context of political change or as a response to the economic crisis, regional policy objectives in some countries are becoming less ambitious, favouring limited intervention. In contrast, there are countries where the objectives of regional policy are expanding in scope and ambition. This includes some EU10 countries which benefit from relatively significant and stable allocations of EU regional development funding under Cohesion policy. In these cases, significant efforts are being made to establish or expand domestic regional policy objectives.

Nevertheless, an assessment of contemporary regional policy objectives in Europe reveals some fundamental, shared characteristics. A long-term trend has been a shift in regional policy goals from being a policy primarily concerned with territorial equity or cohesion to one promoting growth and competitiveness at the regional level. Although there has been a shift towards competitiveness objectives in recent years, in some contexts issues of territorial equity considerations are regaining prominence. Nevertheless, most countries continue to implement regional policies that attempt to integrate or synthesise both objectives. Current thinking stresses the aggregate development effects of development

policies based on competitiveness objectives as well as the economic and social costs of an unbalanced development process.

The importance attached to the process of regional policy design and delivery in some countries is reflected in the inclusion of objectives that explicitly address governance issues. Various new objectives are emerging on the regional policy agenda, often mapped onto longer-term development strategies. The agenda for regional policy has been broadening to incorporate new policy themes, in particular climate change and alternative energy, environmental sustainability, energy security, demographic change (including migration and demographic ageing). Such issues are regarded as providing new economic development opportunities and potential synergies with other aspects of the current regional policy agenda.

Recent changes in policy objectives are in some cases related to new strategic thinking and conceptual debates. This includes the concept of ‘place-based’ territorial development which emphasises the identification and mobilisation of the potentials of specific territories, (i.e. the ability of all territories to grow, drawing on their own resources). Place-based thinking is reflected in current regional policy objectives to varying degrees. In some cases, it is cited explicitly in national strategic development documents as a guide for framing objectives. In other cases, some of the fundamental components of the place based approach are established principles on which policy objectives are based. Three cross-cutting features are: a flexible conceptualization of different geographical scales and boundaries; the development of an appropriate policy based on cross-sectoral integration; and the establishment of a multi-level system of governance that is capable of identifying and responding to varied combinations of policy issues in specific contexts.

The spatial targeting of regional policy

Across Europe, a new dynamic is evident in the way that policy-makers are thinking about the geography of intervention in regional development. Although national approaches vary considerably, a common feature is that policies have been targeting all regions in a given country. With the aim of improving their territorial capital, economically strong as well as disadvantaged areas are the subject of strategies tailored to individual regional needs. In spite of this all-region approach, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. The importance of spatially targeted interventions is also emphasised by the European Commission’s Fifth Cohesion Report.

Many countries have been looking at new ways to design policy interventions based on distinctive geographies in recent years. This trend has been given impetus by the European debate on territorial cohesion, most recently marked by the Territorial Agenda for 2020 agreed in May 2011. Some countries focus predominantly on the role of national and regional centres, which is in line with proposals by the European Commission to reinforce the urban agenda as part of the future Cohesion policy. Although centre-periphery models and growth pole approaches have traditionally been part of the policy-mix in many countries, awareness has been growing of the ‘driving force’ of urban centres as development hubs.

Some countries specifically address spaces with special features through tailored measures. Spaces requiring special treatment include areas characterised by peripheral location, structural weaknesses, cultural specificities or topographical disadvantage. In other countries, the local level has increasingly become a focus of policy-makers as the preferred implementation level for policies.

Lastly, international territorial cooperation has recently been boosted at EU-level, mainly by the introduction of two frameworks: European Groupings for Territorial Cooperation (EGTC); and macro-regional strategies. While there are numerous early examples of territorial cooperation independent of EU support, collaboration across borders is today widely co-financed by the EU's European Territorial Cooperation Objective. Lately, macro-regional strategies have been introduced, which have the potential to be useful frameworks for territorial cooperation on a functional basis.

The use of regional policy instruments

The recent period has seen a continued shift away from regional aid towards broader business support measures and the wider use of development programmes in some countries. At the same time, there has been an increased interest in the use of non-grant financial instruments to improve access for finance across countries and, to a more limited extent, in lagging areas.

There has been a noticeable decline in the use of regional aid, with some countries relying solely on general business support measures. In Denmark, this has been the case for two decades, whereas other countries (Netherlands, United Kingdom) have been moving in this direction over time, recently phasing out regional aid schemes and prioritising general business support measures. Aid schemes are still affected by the crisis, and recent change relates to relaxed support conditions in some countries (France, Portugal, Romania), while access has been restricted in other cases due to tight budgets (Greece, Spain). In some of the EU12, shifts can be observed with respect to the mix and targeting of instruments, partly due to the influence of EU Cohesion policy (Lithuania, Slovakia).

Following the crisis, business support instruments have been made more accessible and new instruments were launched in France and the Czech Republic; in other countries, funding gaps mean that cuts had to be made to business support measures (Ireland, Netherlands). There is also renewed interest in support to Enterprise Zones/Areas (United Kingdom (*England, Scotland, Wales*)) and Technology and Innovation Centres, as well as the continued promotion of different types of clusters with new initiatives launched in some countries (Greece, Ireland, Slovakia). Another common trend concerns the streamlining or simplification of business support and its management (Greece, France, United Kingdom *(England),* Italy). Despite the importance of traditional support, there are also signs of an increasing focus on the improvement of the business environment in the EU12 (e.g. Poland, Slovenia).

Regional development programmes are becoming more common, in part reflecting the influence of EU Cohesion policy, and also in line with efforts to support endogenous development. In Finland, for example, there has been a shift from direct aids towards the use of programmes enhancing the business environment, with a focus on innovation. In

Switzerland, traditional aid instruments were discontinued in 2008, and support is provided via programmes developed in cooperation between the federal government and the cantons. In contrast, the use of regional programmes has been discontinued in the United Kingdom *(England)* and the Netherlands. There has also been a greater focus on thematic regional strategies, notably concerning the development of regional innovation strategies (France, Ireland, Sweden).

There has been a growing interest in non-grant financial instruments in a context of tight budgets and influenced by EU Cohesion policy. They are often run centrally without a particular regional focus, but there are some countries where more targeted initiatives are in place, or where assisted areas receive preferential treatment (Austria, Denmark, Finland, France, Ireland, Italy, Lithuania). However, there are concerns over the geographical spread of the provision of business finance, the challenges linked to implementing such instruments, as well as their usefulness in lagging areas.

The governance of regional policy

The implementation of regional policy in Europe continues to be in a state of flux. Change is occurring in response to new conceptual thinking about regional development, administrative restructuring (including as a result of the crisis) and, in some cases, reforms associated with EU Cohesion policy. Changes are taking place within different institutional contexts and at different rates but some basic trends can be identified.

First, policy-makers have been looking afresh at the optimal territorial scale(s) for regional policy design and delivery. The aim is to find better ways of intervening in the complex spaces and flows that characterise contemporary economic development. Until recently, this was often associated with regionalisation processes but increasingly policy-makers are concerned with the governance of more complex, trans-local spaces.

Second, coordination remains a priority, pursued across administrative levels through delegated or ‘decentralised’ coordination but more often through consensus-based contracts, agreements or partnership structures. Priority is increasingly placed on the coordination of ‘dedicated’ regional policy with sectoral policies. This is part of a growing awareness of the need to integrate all policies that have a territorial impact.

Third, for efficiency and accountability reasons, performance management is high on the agenda of regional policy-makers. Arguments for the increased use of conditionalities are gaining momentum. Processes of devolution and decentralisation of regional policy implementation and budgets are creating so-called ‘principal-agent’ dilemmas that demand strong performance management systems. Integrating a complex range of policy interventions through a territorial lens (as under the ‘place based’ regional policy model) requires different administrative systems and new ways of structuring and managing organisations. Lastly, the increasing constraints on regional policy budgets as a result of the global financial crisis emphasises value-for-money and efficiency, putting increased emphasis on performance management.

To varying extents, European countries are exploring conditionalities, incentives and sanctions. Nevertheless, there is a basic paradox surrounding the use of these instruments,

a tension that runs through debate on the new regional policy paradigm. This concerns the balance between central direction and local choice. In moving to more devolved decision-making, national governments recognise the logic for incentivising performance, including the use of conditionalities, sanctions and rewards. However, the devolution of priority-setting competences and budgets reduces their ability to use sanctions and rewards to incentivise the delivery of national priorities. This highlights the implicit tension in setting national priorities that are implemented at local discretion. As a result, regional policy systems are developing these instruments with caution – there is a need to ensure sufficient flexibility, capacity and participation, particularly at sub-national levels. A key challenge is establishing levels of trust, based on the development of a robust evidence base, between those sharing management responsibilities.

The evaluation of regional policy

Evaluation is increasingly seen as an important tool to ensure that government interventions maximise their effectiveness. The experience of evaluation differs widely across Europe with some countries having had a long history of evaluation whilst others have only undertaken evaluation studies in the last decade and are still developing evaluation systems and cultures Over the past 2-3 decades, evaluation has spread more widely across Europe. An institutionalisation of evaluation can be measured according to a number of dimensions: the creation of evaluation units; building evaluation into policy cycles; the number of evaluation reports produced; the creation of evaluation societies; and research on evaluation methods. The European Commission has provided a stimulus to evaluation through the regulatory requirements relating to ex ante, mid-term and ex post evaluation of EU Cohesion policy.

Current national practices relating to the evaluation of regional policies can be grouped into three categories, based on the prevalence and experience of evaluation: (a) embedded – where the evaluation of domestic regional policy is regularly used as part of the policy design or implementation process; (b) evolving – where the evaluation of domestic regional policy is emerging, building on experience gained with EU Cohesion policy; and (c) externally induced – where the evaluation of domestic regional policy is limited, and evaluations are mainly conducted under EU Cohesion policy.

Research for this study across 29 European countries reveals a wide range of evaluation studies conducted in the 2009-11 period, or currently under way / planned, relating to domestic regional policies and EU Cohesion policy. The studies encompass evaluations of entire policies, programmes, specific instruments or individual projects as well as operational or institutional aspects linked to implementation.

Conclusions

The context for this report is that regional policies in many parts of Europe are operating in an uncertain economic environment. Following the crisis, cuts in public expenditure are

placing renewed pressure on the resources for regional policy in parts of Europe. Notwithstanding the current economic pressures, an important message from the research is that, in many countries, there is a long-term thinking about the challenges for regional development, reflected in an increasing number of spatial or territorial strategies and plans. In the short to medium term, regional policies are undergoing review and reform in several parts of Europe. In most cases, policy reviews reaffirm a commitment to the 'new policy paradigm' focused on the objective of regional competitiveness.

The term 'place-based policy' is at the heart of many debates on the future of regional policy. This is associated with the tension between spatial and sectoral policy responses to regional development challenges in several countries, particularly where policy-makers seek to focus on regional/national 'strengths'. A focus on growth points or 'strong centres' features in the regional development strategies of many countries, as well as clusters. A similar spatial/sectoral tension characterises renewed support for innovation in the regions.

The question of the territorial focus or the appropriate spatial scale of intervention under regional policy is also being debated. Policy-makers are recognising the need for different spaces or geographies as well as taking account of the distinctive development opportunities and needs of sub-regions and localities. The latter point is also reflected in a greater emphasis being given to 'bottom-up' development and local capacity-building.

Finally, an important theme of this report is the demand for greater accountability for government spending, evident in the debate about conditionalities in regional policy (particularly as part of the EU debate on the future of EU Cohesion policy) and on better use of evaluation.

Regional Policy in Europe – Divergent Trajectories? Annual Review of Regional Policy in Europe, 2010-2011

1. INTRODUCTION

The environment for regional policy is characterised by increasingly uncertain and difficult economic conditions. Recovery from the financial and economic crises has been slow and patchy, with big differences in growth between European countries. In many parts of Europe, fiscal consolidation policies involve significant cuts to public expenditure and, in some cases, a reconsideration of the role of government. The impact on regions varies greatly. While there was an almost universal reduction in economic activity across Europe in the first years of the crisis, the exposure differed according to dependence on the sectors at the heart of the crisis such as finance or construction, dependence on export markets and the strength of those markets, and dependence on public sector employment and the level of budget cuts. The difficulties arising from the crisis add to the long-term challenges of growth and restructuring facing the less-favoured regions of Europe, while some previously successful regions have faced major changes that have undermined previous sources of growth.

The varied trends in regional disparities are matched by increasingly divergent trajectories in the approaches of European countries to regional development. While some countries are maintaining a regional policy focus on longer term objectives of regional competitiveness and growth, in other countries regional policies are coming under pressure, with the abolition of policy frameworks, institutions or instruments and reductions in spending. More generally, the conceptual debate on how best to promote regional development continues. There are ongoing discussions about: the spatial implications of challenges like globalisation, demographic change, energy security and climate changes; the degree to which 'place-based policies' can provide a coherent response; and the need for new geographies or spaces of intervention and different types of financial instrument.

The aim of this report is to provide an overview of these and other recent changes in regional development policies across Europe. It comprises a comprehensive, comparative and reasonably concise review and assessment of how the challenges for regional development policy are evolving, and the changing policy response – in terms of objectives, instruments, administration and evaluation. The intention is to give regional policy-makers a clear picture of how regional development policies are evolving across Europe, the rationale for policy trends, and how individual countries fit within the broader picture.

This type of regional policy report is produced each year under the EoRPA research programme, and the current review is the 32nd annual report to be produced since EoRPA was founded in 1978-79. It builds on previous such reports, most notably those produced in 2009 and 2010.[1]

[1] Bachtler J, Davies, S, Ferry M, Gross F, McMaster I (2010) *Regional Policy and Recovery from the Economic Crisis: Annual Review or Regional Policy in Europe*, EoRPA Paper 10/1,European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow,

This report focuses mainly on policy changes over the 2010-11 period, highlighting the key developments taking place and the main factors underpinning change. The report is based on detailed research on the regional policies of 29 individual European countries[2] and is supported by a series of standard comparative tables, as part of each chapter, highlighting recent policy developments on a country-by-country basis; these tables are also available as a separate document, providing a quick summary of how individual aspects of policy are evolving in each country.[3]

It should be noted that this annual report incorporates some changes compared to previous versions. In response to feedback from EoRPA partners, the report focuses on some key policy questions identified as being of interest. So, alongside the standard reviews of policy change, different chapters address the following issues:

- the emergence and relevance of the place-based concepts in regional policy
- the use of new geographies and spaces for designing and implementing regional development interventions;
- the use of 'new financial instruments' (or non-grant forms of support) in regional development policies, such as risk or venture capital instruments or revolving funds; and
- the evaluation of regional policy in European countries and recent evaluation results.

The paper is in eight further sections. Chapter 2 begins by examining the state of **regional economic disparities** in Europe, as well as recent trends in disparities. It also assesses the impact of the financial and economic crisis on regional disparities, based on the latest available data. Drawing on recently published academic research, the discussion considers the resilience of regions in the face of external shocks, and considers different ways of categorising regions in terms of their performance.

Chapter 3 begins consideration of the regional policy response, with a preliminary overview of the **main regional policy developments** in 2010-11. It begins by discussing the emergence of new national regional policies in Central and Eastern Europe and then considers the reappraisals of regional policy in the Nordic area and emerging national and regional plans for regional development. The review also examines the rationalisation of

October 2011. Davies S, Kah S and Woods C (2010) *Regional Dimensions of the Financial and Economic Crisis,* EoRPA Paper 10/1,European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow, October 2010. Yuill D, with McMaster I and Mirwaldt K (2010) Regional Policy under Crisis Conditions: Recent Regional Policy Developments in the EU and Norway, EoRPA Paper 10/2, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow, October 2010.

[2] The research has covered the EU27 plus Norway and Switzerland. See: *Regional Policy Developments in the Member States and Norway: Country Reviews 2010-11*, EoRPA Paper 11/2, European Policies Research Centre, University of Strathclyde, Glasgow, October 2011.

[3] See: *Regional Policy Developments in the Member States and Norway: Comparative Tables 2010-11*, EoRPA Paper 11/3, European Policies Research Centre, University of Strathclyde, Glasgow, October 2011.

regional policy and budget cuts in various countries, concluding by discussing some refinements to regional policy instruments and areas, mainly attributable to the economic crisis.

Chapter 4 examines in more detail how **regional policy objectives** are changing in response to the economic crisis, political developments and long-term development challenges such as climate change and demographic pressures. It considers the overall strategic frameworks for policy and focuses in particular on the way in which the debate about 'place-based' concepts is influencing policy thinking and changes to regional policy.

Chapter 5 covers changes to the **spatial orientation of policy**. It discusses how the traditional focus of regional policy on regional aid areas has been subject to change over an extended period, with all-region policy approaches becoming increasingly dominant, but with the retention of important elements of regional targeting. The chapter also addresses the specific issue of how new spaces or geographies are being used for regional development interventions

Chapter 6 is concerned with **regional policy instruments**. It examines how policy has moved from a rather narrow focus on regional investment aid and infrastructure support to a broader approach, encompassing support to the regional business environment more widely, and with a rise in the prominence of regional programming. The chapter focuses on targeted regional policy instruments, broader support to the business environment, and the use of regional programmes. Further it explores the use of non-grant instruments – loans, equity investment, guarantees etc – for economic development purposes, both nationally and in specific regions.

Chapter 7 discusses changes to the **governance of regional policy.** It considers how the scale at which policy is delivered has been evolving, as well as recent changes in policy coordination. A particular theme is how policy management has become increasingly complex, and the chapter discusses the extent to which conditionalities of different types are used under national regional policies.

Chapter 8 reviews the **evaluation of regional policy.** Against the backdrop of increasing interest in, and use of evaluation methods as part of regional policy, the chapter reviews the way in which evaluation is being used in different European countries and presents examples of recent evaluation studies.

Finally, Chapter 9 draws together the main points to emerge from the report in **conclusions and issues for discussion** at the EoRPA Conference.

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

2.1 Introduction

The main question about the trends in disparities over the past couple of years has been the effect of the global financial crisis and its consequences for convergence or divergence between Europe's regions. The relatively stable growth conditions up to 2007 have been replaced by financial turmoil and dramatic action by governments to address the crisis and then to reduce ballooning budget deficits. As a consequence, regions have faced reductions in economic activity, but with very variable experiences depending on exposure to the sectors at the heart of the crisis such as finance or construction, dependence on export markets and the strength of those markets, and dependence on public sector employment and the level of budget cuts. The variables affecting regional performance are many: some are nationally driven, such as exposure to bank failures or budget deficits; and some are regionally specific, such as the presence or absence of firms with strong export markets. The challenges of the crisis add to the long-term challenges of growth and restructuring facing the less favoured regions of Europe, whilst some previously successful regions have faced dramatic changes that have undermined previous sources of growth.

This chapter examines the current state of regional disparities in Europe, building on standardised data which illustrate the trends up to the onset of the crisis, and then using available information to assess the changes arising from the crisis. Long-run trends can be seen from data on GDP and employment/unemployment, but the picture since 2008 remains unclear and fragmentary. However, the available evidence is gathered to provide initial insights into which regions have survived the crisis better and whether convergence or divergence is the likely outcome of this period of change. More particularly, the chapter examines which regions seem to be experiencing atypical performance – either growing through the crisis, or else seeing excessive decline compared with others.

The chapter begins with an overview of regional disparities at the European level based on the most recent Eurostat NUTS 2 regional data. It then examines the nature of national-level disparities drawing on data at national level from various spatial scales. Consideration is given to the geographies of disparity found across countries. This is followed by a categorisation of regions according to their position in Europe and whether they are converging or diverging. Lastly, there is a discussion of the concept of regional resilience and the experiences of regions since the onset of the global financial crisis.

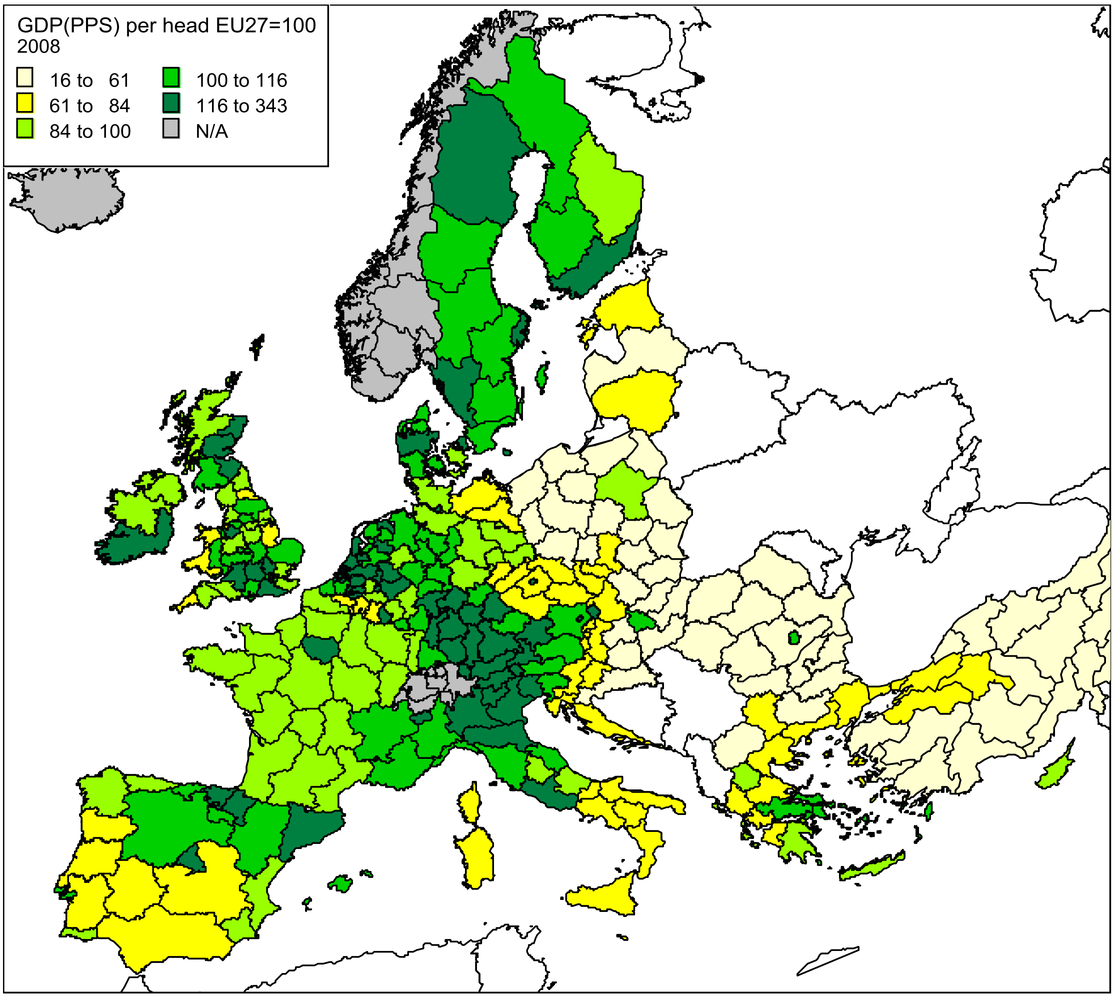
2.2 Overview of regional economic disparities at European level

Whilst regional disparities in Europe remain very large and multi-dimensional, the period up until 2008 saw a gradual improvement in the conditions in the poorest countries and regions as most of the poorest states in Europe experienced higher levels of growth than the more prosperous countries. At a highly aggregated level, some convergence seems to have taken place although at the level of the individual country and region the outcomes have been more varied. Disparities within countries in some cases increased as capital regions surged ahead, raising the overall national performance whilst some of the poorer regions lagged.

2.3 Regional patterns of GDP and unemployment

The most recent standardised regional GDP data available across Europe from Eurostat are for 2008 and provide a picture of the state of Europe just before the full impact of the financial crisis (see Figure 1). GDP (PPS) per inhabitant at this point measured for NUTS II regions ranged from only 28 percent of the EU27 average in Severozapaden in Bulgaria to 343 percent in Inner London.[4]

Figure 1: Regional GDP per head in the EU27 (PPS per inhabitant as % of EU27 average by NUTS 2 regions), 2008



Source: Eurostat

The basic pattern of disparities, with high-income regions in the central and northern parts of Europe and lower income regions in the south and east is obvious, but closer examination reveals significant variation within countries as well. The United Kingdom, France and Belgium all have regions with GDP below 84 percent of the EU average, and the eastern *Länder* of Germany also continue to lag, although not all below 84 percent, but one region in the former West Germany (Lüneburg) also scores exactly 84. In the newer Member

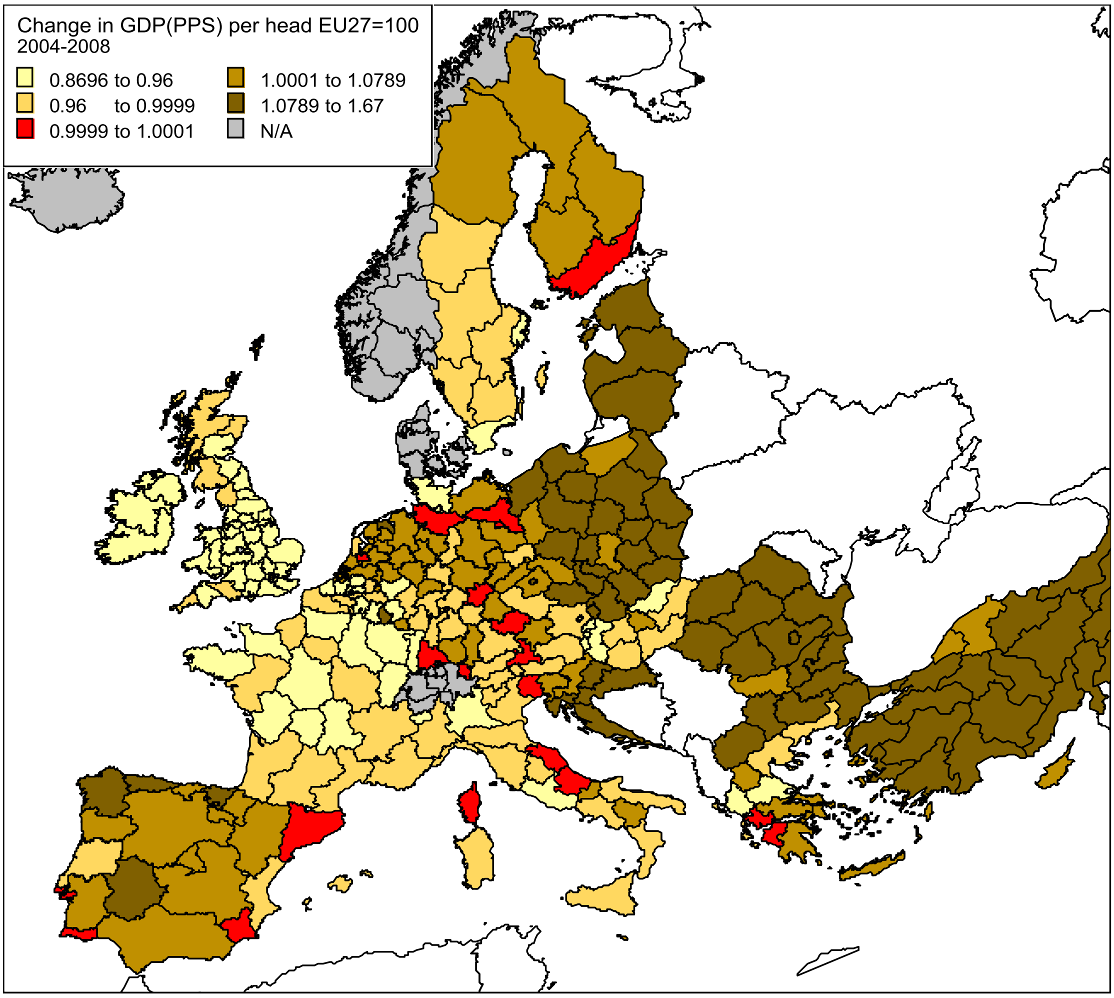
[4] Eurostat (2011) Regional GDP per inhabitant in 2008, News Release 28/2011.
http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/1-24022011-AP/EN/1-24022011-AP-EN.PDF

States, despite very low GDP per head figures in many cases, some regions such as national capitals – Prague, Bucharest, Bratislava and Budapest - have GDP levels equivalent to wealthier EU countries. Portugal and Greece have similar patterns with high-income capitals. These national capitals operate as islands of growth surrounded by low productivity regions, whereas in other countries the pattern is more complex with the highest income regions including regions with significant natural resources (Groningen) or industrial powerhouses (País Vasco).

Elsewhere in the high-income countries, the poorly performing regions are varied in nature – some are industrial or urban and have struggled with long-term economic decline such as Merseyside or Hainaut, whilst others are more rural or peripheral such as Languedoc-Roussillon, Cornwall or Lincolnshire. Spain, Italy and Germany continue to have a mix of high and low-income regions around a distinctive divide: north-south for the first two and east-west for Germany.

Looking at change over time, for the four years up to 2008 (see Figure 2), the trend was towards convergence, at least measured by GDP (PPS) per head at NUTS II level.

Figure 2: Change in regional GDP per head in the EU27 (PPS per inhabitant as % of EU27 average by NUTS 2 regions), 2004-2008



Source: Eurostat

The high-growth regions were typically in the newer EU12 Member States, and in Spain, Northern Finland and Sweden, as well as in some parts of the European core – Netherlands, Denmark, and northern Germany. Relative decline had been experienced by the United Kingdom, France, Belgium, Italy, parts of Germany and most of Sweden. In the case of the Central and Eastern European countries, though, this general growth also tended to be coupled with widening internal disparities as national capitals grew more rapidly than the remainder of the countries.

Taking one simple measure of the ratio between the highest and lowest GDP(PPS) per capita of NUTS II regions compared to the EU27 there is little difference between the high and low GDP countries in the degree of disparities overall. The low-income countries have a slightly higher average as a result of countries such as Romania and Slovakia, where the difference between the poorest region and the national capital is very marked, but there is an even greater difference between inner London and the poorest regions in the United Kingdom.[5] However detailed analysis of regional disparities at a finer level of resolution shows that most of the smaller countries represented as just a single NUTS II region also have considerable differences in economic performance between the capital region and the rest of the country (see Table 1).

Whilst regional GDP data are only available up to 2008 and so do not show the effects of the financial crisis, apart from one or two countries which experienced the effects earlier than others, employment data are available up to 2010 and show the immediate consequences of the crisis in falling employment and rising unemployment (see Figure 3).

Taking the change from 2007 before the crisis until 2010, much of Europe has seen a fall in levels of employment. The main exceptions to this have been Germany, Luxembourg and Poland, significant parts of Belgium, Switzerland, Austria and Romania, and a few regions in the UK, Greece and France. However, even in a number of these regions unemployment rates have also increased as the creation of new jobs has been slower than the rate of increase in those seeking work.

Only Germany, Poland and parts of Austria saw a reduced or stable unemployment level between 2007 and 2010, with the exception of a handful of other regions, Lincolnshire, Corse, Auvergne and Itä-Suomi. Some of those places with an increase in unemployment also have high levels of absolute employment, so the pattern is complex. Whilst unemployment is rising in northern European countries such as the United Kingdom, Norway, Sweden, Denmark and Netherlands, employment levels in these countries remain over 70 percent. However, in southern Europe - Spain, Portugal, Italy and Greece - unemployment levels are also rising (and at a higher absolute level) but employment levels are below 70 percent and in some regions below 60 percent.

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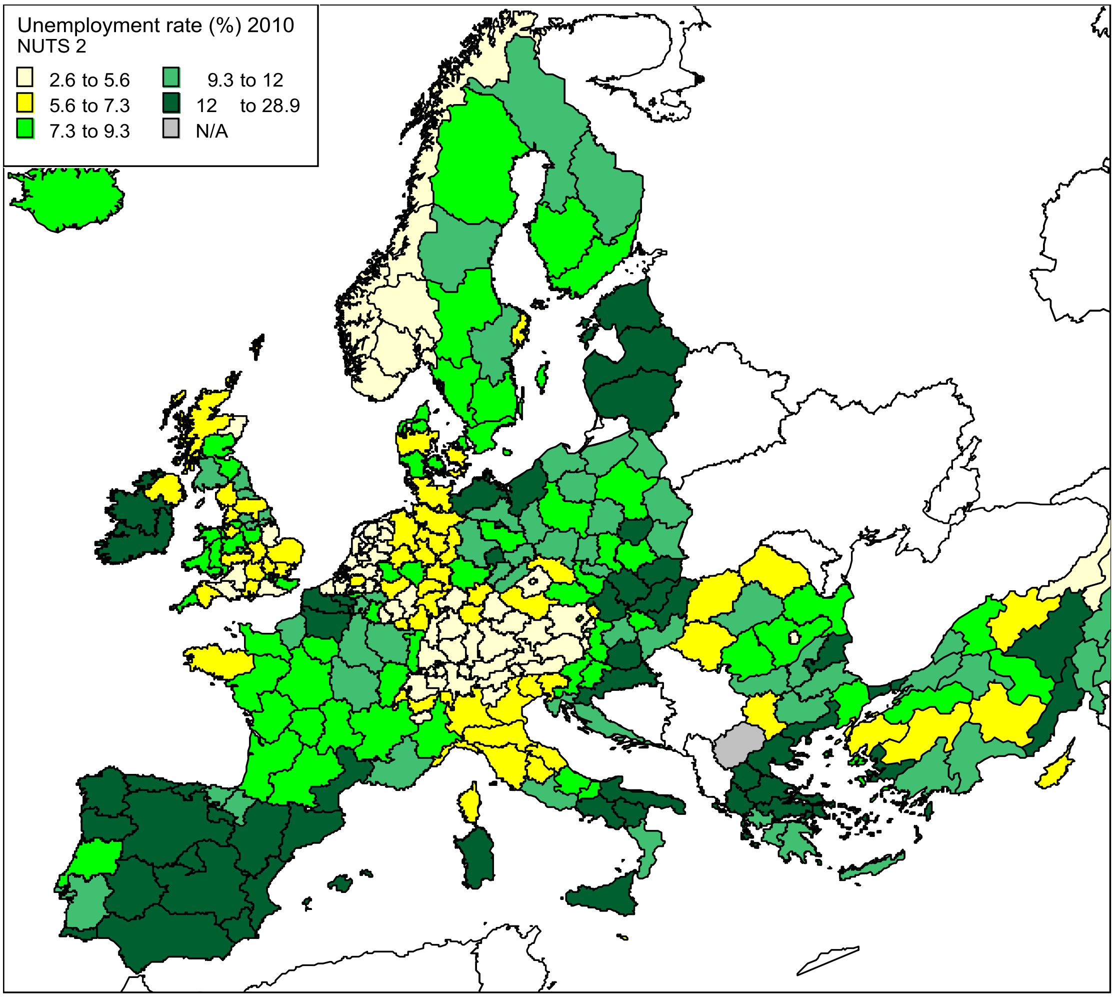
[5] It is worth mentioning here that London is a special case with the highest level of GDP per capita in Europe and is split into an inner and outer area. But having said that the population for inner London is over 3 million so whilst there is clearly a commuting effect and the consequence of being a global financial capital, Inner London remains large for a NUTS II region and is larger than several nation states in population terms.

Figure 3: Regional unemployment rates (%) in the EU27, 2010



Source: Eurostat

2.4 Alternative geographies

The analysis of GDP and employment in the previous section is undertaken at the NUTS II level as this is the level for which standardised European data are available from Eurostat. However, this does not allow analysis of regional disparities within smaller countries which have just one or two NUTS II regions. Although populations are smaller, such countries also have distinct regional disparities albeit for smaller regions. There is also a recognition in many countries that regional disparities are not just a simple matter of comparison between standard regions; there are alternative geographies of economic and social disparities between categories of area (such as urban and rural) that may not always map onto regional boundaries.[6]

A large number of European countries display a marked disparity between the capital city region and the remainder of the country, sometimes with the latter being divided into a set of industrial growth regions and a poorer rural periphery. This pattern is particularly

[6] See: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

common among the Central and Eastern European countries but also some of the other low-income countries. In most of the newer Member States, foreign direct investment and growth opportunities have been concentrated in the national capitals leading to marked increases in GDP, and in some cases a higher level than many regions in the high-income countries, while more peripheral regions lack the infrastructure for development and continue to lag behind. In some countries, there is a three-fold division between national capital, intermediate industrial regions and peripheral regions reliant on subsistence agriculture. Other countries with a strong capital region include the United Kingdom and France where a historically centralised state and economy have created overwhelming advantage for the capital, an advantage that has not been weakened by the financial crisis.

Several countries have a form of north-south or east-west division, often combined with other forms of urban-rural disparities. France for example has, in addition to a dominant capital region, declining fortunes in the old industrial regions of the north exacerbated by the recession, whilst some of the southern regions are growing from a relatively low base. However, there are additionally a number of agricultural areas which lag behind in both north and south, and Corse as a special case as an underdeveloped island. The United Kingdom has similar complexities with a broad north-south divide, but with islands of development in the north as well as islands of disadvantage in the south. Elsewhere, patterns of development are leading to diverging fortunes at sub-regional level, so in the Czech Republic for example, there is a ‘chessboard’ pattern, as neighbouring municipalities differ greatly in the level and trend of development.

Smaller scale problem areas are a common phenomenon and sometimes relate to ethnic or linguistic minorities either on borders or relating to historical communities. Cyprus has particular issues arising from past conflict with a zone of underdevelopment along the UN Green Line. In Ireland, there are a number of small Gaelic-speaking communities, mainly on the western coast and whose needs are particularly recognised by a specialist development agency that has a cultural as well as economic role.

2.5 Categorising regions

Another perspective on the dynamics of disparities within Europe is to categorise regions according to their position relative to the EU average and the direction of travel. So it is possible to examine which regions are either declining or growing, for the main groups according to GDP level. Whilst a crude way of categorising what is actually a very diverse set of regional circumstances, it gives an indication of some of the ‘drivers of change’ in the broad trend towards convergence up to 2008. In this discussion, the position of countries is considered relative to the EU27 average here, so any sustained improvements by poorer regions will raise the average and therefore lead to a reduction relative to that average for other regions unless they similarly grow. Convergence would therefore see a reduction in the score of the wealthier regions as well as increases for the poorer regions.

- **Poor regions making progress**. Most of the poorest regions saw significant levels of growth relative to the EU average between 2004 and 2008, narrowing the gap with the more affluent parts of Europe. The Baltic States, Poland, Slovakia, Bulgaria and Romania all saw their regions grow relative to the EU.

- **Poor regions losing touch.** While the majority of poorer regions, especially in Central and Eastern Europe saw growth between 2004 and 2008, this growth was not shared with some of the poorer performing regions in France, Belgium, and the United Kingdom, which slipped back relative to the EU average. Typically these included the old industrial regions which had failed to diversify successfully, such as Tees Valley Durham, South Yorkshire, Lorraine, Hainaut, Liege and (in Austria) the Burgenland. There were also some more peripheral regions such as Cornwall and Devon, and Poitou-Charentes. Some of the Greek regions also performed poorly – Ipeiros and Thessalia both slipping back relative to others.

- **Average regions performing well**. Most of the middle-ranking regions in Europe saw little improvement in their GDP between 2004 and 2008 relative to the EU average as might be expected, but a few regions saw an improvement in their status, mainly in three blocs. Finland performed well, as did northern Spain from Galicia to Aragon, and also north-western Germany and the Netherlands.

- **Average regions slipping behind.** Most of the remaining middle-ranking regions saw a slide in GDP relative to the EU27, notably in the United Kingdom, France, and northern Italy.

- **Successful growth regions**. As previously suggested, convergence meant that most of the richer regions slipped back a few points relative to the average as the average was increased by the growth of EU12 Member States. A few of the successful regions managed to increase their lead, however, although for different reasons, including Prague, Bratislava, Luxembourg, Inner London and Groningen. The Southern and Eastern region of Ireland would have also been in this group but for a drop in income during 2008 as the global financial crisis hit early.

- **Successful regions losing their way.** Most of the more successful regions have seen a modest reduction relative to the EU average, whilst still achieving growth rates up to 2008 e.g. Brussels, Antwerp, Hamburg, south-east Ireland, Vienna, Åland, Bedfordshire, Berkshire, Surrey and Gloucestershire.

This confirms a general trend towards convergence at a European scale as the poorest regions tended to improve their performance, and most of the richer regions slipped back relatively. A few rich regions saw growth but often for anomalous reasons and did not illustrate a more general trend. The poorer regions that saw a decline were typically the older industrial regions of high-income countries so were not among the absolute poorest in Europe and hence this does not equate to divergence at a European scale. As already noted, though, at national level a number of countries saw real divergence where fast-growing capital regions pulled away from the rest of the country, or where old industrial regions fell back in some of the higher income countries.

2.6 Regional resilience

2.6.1 Typology of regional resilience

Resilience is a term that has been much used since the advent of the financial crisis as a way of capturing the ability of a region to weather external shocks. There has been a flurry of publications investigating resilience in European regions[7], although with limited empirical evidence due to data availability and the early stage as yet in recovery – resilience can only really be assessed once recovery has taken place. The term 'resilience' is complex and not easily defined, but there is a general expectation that the fortunes of a region when affected by a shock such as the global financial crisis will be affected by a variety of regionally specific factors such as sectoral structures, past economic performance, human capital endowment, natural resources, clusters and metropolitan agglomeration effects, as well as exposure to the specific drivers of the external shock.

Resilience is also affected by the national context, and certain regional assets that may be beneficial in one country may be less so in another depending on the manner in which the crisis has unfolded. So, for example, a strong public sector base may be a source of weakness in a country with high levels of public debt and a need to make severe budgetary cuts, but a source of strength in a region which can maintain public expenditure levels.

The meaning of resilience itself as a concept is not clear and is subject to current debate. A recent paper[8] has identified a number of different ideas of resilience from different disciplines which lead to alternative ways of describing regional development change processes. A simple definition of the term suggests an ability of a region to bounce back from the effect of a shock – in static terms to return to the way it was before the shock – but this is complicated in the case of a regional economy which is not fixed but dynamic. 'Engineering' resilience is a simple return to an initial fixed position, and can be contrasted with 'ecological' resilience which indicates the scale of shock that can be resisted before an ecosystem shifts to a new kind of equilibrium. In regional terms we might consider how much of a shock is needed before a region experiences a major sectoral shift. 'Adaptive' resilience by contrast indicates that a system is able to make modifications to itself to minimise the effects of the shock, either pre-emptively or in response.

Another way of looking at resilience is to look at the effects over time, with short, medium and long term effects. A first perspective on resilience is the initial capacity of the region to absorb the shock with minimum disruption, the obverse of which is the vulnerability of a region to disruption[9]. Such vulnerability may be specific to the nature of the crisis, such as

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[7] See particularly a special issue of the *Cambridge Journal of Regions, Economy and Society* in 2010, 3(1) which contains 11 papers on the topic. Also, see discussions on regional resilience in Chapters 2 and 3 of Bachtler J, Davies S, Ferry M, Gross F, Kah s and McMaster I (2010) *Regional Policy and Recovery from the Economic Crisis: Review of Regional Policy in Europe, 2009-10,* EoRPA Paper 2010/1, European Policies Research Centre, University of Strathclyde, Glasgow

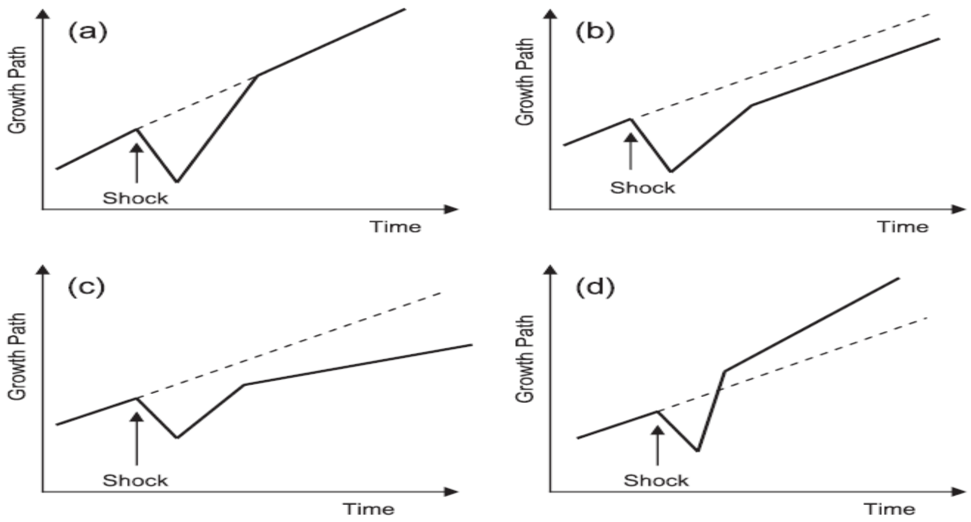
[8] Martin, R. (2011) 'Regional Economic Resilience, Hysteresis and Recessionary Shocks', Plenary Paper Presented at the Annual International Conference of the Regional Studies Association, Newcastle, 17-20 April.

[9] Davies, S. (2011 forthco*ming) Regional resilience in the 2008-2010 downturn: comparative evidence from European countries, Cambridge Journal of Regions, Economy and Society.*

a high exposure to sub-prime mortgage lending, or a dependence on particular export industries, or may be more generic such a dependence on foreign investment and low value added activities. A second dimension is the ability to remain on, or return to, a long-run development path. This is more related to the region's asset base, especially in terms of human capital, enterprise and access to financial capital so that even if a region is affected by the shock it can quickly recover and resume growth again. So, many regions with export-oriented industries suffered from the initial downturn in the global economy but are expected to recover strongly when global growth resumes, especially if they have benefited from a devaluation of their currency. Lastly, there is a longer term adaptability of a region as a consequence of institutional learning and capacities for long term innovation. Therefore, even if a region is immediately affected and slow to bounce back, it might establish a new development trajectory based on a shift in sectoral structure for example.

There is also the question of what a regional economy bounces back to.[10] If a region is growing at a particular rate and a shock leads to a drop in output, then does the region bounce back to where it would have been if nothing had happened, or to a similar growth rate but starting again from a lower level? Alternatively, growth might resume at higher or lower rates than before (see Figure 4).

Figure 4: Stylised Responses of a Regional Economy to a Major Shock



Notes: (a) Return of region to its pre-existing steady growth path following the shock; (b) and (c) region fails to resume former steady growth path after the shock, but settles on an inferior path (d) region recovers from shock and assumes an improved growth path.
Source Simmie and Martin (2010).[11]

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[10] Martin, R. (2011) *op. cit*.

[11] Simmie, J and Martin, R. (2010) The economic resilience of regions: towards an evolutionary approach, *Cambridge Journal of Regions, Economy and Society*, 3, 27-43.

At this stage in the crisis, it not possible to determine for most regions how resilient they have been as growth rates have not yet resumed with any stability and global financial instabilities remain prevalent. Resilience can simply be seen in terms of the degree of shock that a region has experienced. To see if regions have adapted to the shock and changed in ways that facilitate a renewal of growth at higher rate than before, several years of post-shock data will be required.

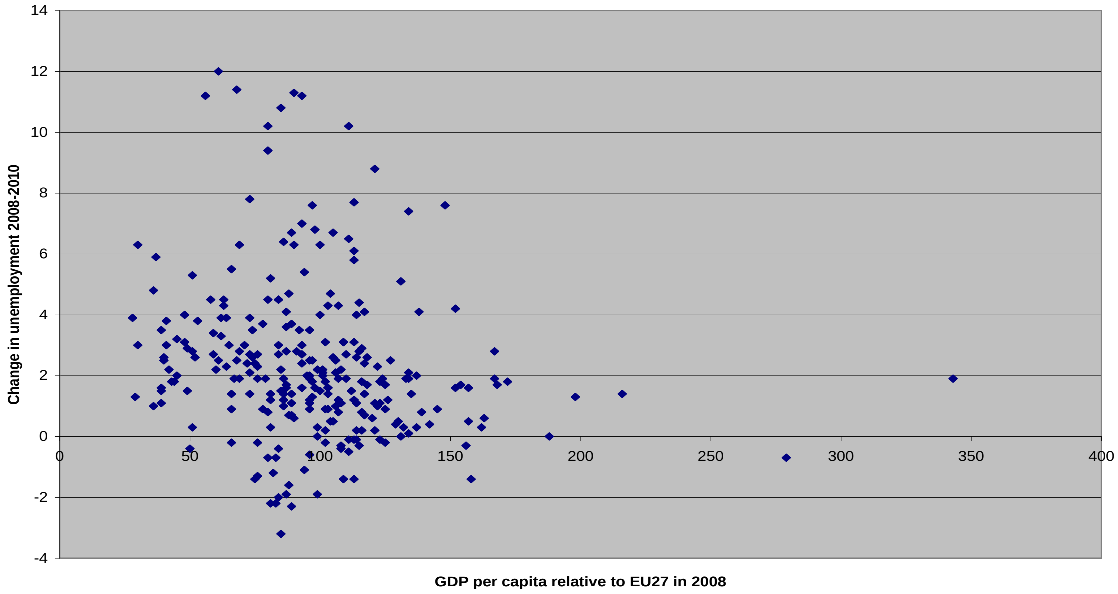
2.6.2 Resilience in the initial stages of the crisis

An initial assessment of resilience can only assess the extent to which regions have experienced the negative consequences of the global financial crisis. So, rather than assessing whether regions can bounce back to growth, at this stage it is only really possible to say how much the crisis affected growth and employment – this is resilience as an ability to weather the storm largely unaffected.

The worst-affected regions were those in countries that were heavily exposed to the banking crisis and to property-led booms, such as Ireland, and/or have subsequently been required to make big cuts in public expenditure. Therefore, resilience with regard to this particular crisis implies a specific mix of sectoral and macroeconomic conditions. Regions with strong exports in commodities such as oil and gas and minerals would have performed well due to rising global demand and prices driven by Asian markets, and regions with low exposure to globalisation (some of the poorest regions in Eastern Europe for example) will have seen little impact. Resilience in this respect, then, is not necessarily a sign of a sophisticated and adaptive economy, but of an economy that produces things that have not been particularly affected by a financial-driven recession.

Comparing the change in unemployment for the period 2008 to 2010 with the level of GDP (PPS) in 2008, it is possible to get a sense of the extent to which economic strength gives resilience at least in terms of unemployment levels (see Figure 5).

Figure 5: Regional change in unemployment 2008-2010 compared with GDP (PPS) per capita (EU27) in 2008 (NUTS II regions)



Source: EPRC analysis of Eurostat data

No data are available for regional GDP after 2008 yet so the effects of the crisis can only be judged in terms of employment and unemployment. However, the relationship is not clear. For the wealthiest regions, the increase in unemployment tends to be small or there is even a reduction. For poorer regions, though, there is a wide spectrum of impact from very marked growth in unemployment to a small reduction in unemployment.

The regions with a reduction in unemployment included a few individual regions from a variety of countries but mainly comprised German regions, especially the eastern *Länder*. The worst performing regions included Spain, Ireland, and the Baltic States. Both of these groups are clustered around the European average for GDP per capita, illustrating the importance of national context rather than underlying economic performance as indicators of resilience to unemployment increase.

EPRC analysis[12] in ten countries found very mixed results, with the strongest correlation being between resilience and low level of manufacturing. The relationship between resilience and pre-existing economic performance (high GDP and low unemployment) varied considerably. In Germany and Italy, it was the more prosperous regions that were less resilient, whereas in France and Romania it was the low GDP regions that were less resilient. Construction employment was also a poor indicator of resilience, probably because construction was a source of weakness when driven by a private sector property bubble but not when based on public sector investment. Generally, metropolitan regions performed better even with a high level of financial service employment due to their more diversified economy.

European Commission analysis[13] finds that the recession has not had a major effect on overall disparities in Europe as the crisis has been no worse in the less-developed regions than in the stronger regions, and the Convergence regions of the EU12 seem to have been less affected than the poor regions in the south of Europe. In general, the Commission expects manufacturing regions and metropolitan service regions to recover more quickly whilst regions dependent on tourism, construction and public administration will grow more slowly (p.39):

> *"The performance of Convergence regions, however, has varied greatly. Most Polish regions have been affected relatively little, which is also the case for Greek regions specialised in tourism, the Eastern German Länder and the EU-12 capital city regions. In contrast, all three Baltic States, Western Hungarian regions, the Italian Mezzogiorno and the South of Spain have experienced significant economic contraction. Outside the Convergence regions, some regions in the Netherlands, Austria and West and South Germany have performed better than the rest of the EU."*

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[12] Davies, S. (2011 forthcoming) Regional resilience in the 2008-2010 downturn: comparative evidence from European countries, *Cambridge Journal of Regions, Economy and Society*.

[13] European Commission (2010) *Investing in Europe's Future: Fifth Report on Economic, Social and Territorial Cohesion*, Publications Office of the European Union, Luxembourg.

2.6.3 *Medium to long term resilience – bouncing back*

The general expectation is that the regions that will be able to recover most quickly from the recession will be those regions with complex metropolitan economies and those with strong high-value export economies. In several countries, the expectation will be that while some export-oriented regions may have seen a more rapid growth in unemployment than poorer rural regions, they will recover more rapidly leading to increased divergence.

Again the EPRC regression analysis[14] fives mixed results, with some countries showing a lower resilience for stronger regions and some showing lower resilience in poorer regions. In Austria, Hungary and Sweden it was the high density metropolitan regions that saw lower resilience and in Germany the high GDP low unemployment regions. In all of these countries there was recovery, with falling unemployment rates in most regions, but less in what had previously been the stronger regions. By contrast, resilience was lower in the weaker regions of France, Romania and Spain where unemployment continued to rise in the poorer regions with a stronger performance in the wealthier or more industrial regions. Italy, Poland and the UK had no clear results where there seemed to be no effective recovery as yet.

The European Commission expects a relatively fast recovery in some of the more prosperous regions in Germany and the north of Belgium as well as metropolitan regions. "Regions in Poland are also projected to continue to perform relatively well and most other regions in the EU-12 are projected to recover quite quickly. By contrast, prospects are much less favourable for Convergence regions in Greece and, to a lesser extent, in Spain, Italy, Portugal and France."[15]

This form of resilience can be linked with a stronger focus on innovation and hence an ability to adapt to change. A recent OECD study[16] has sought to categorise regions in the OECD members according to innovation indicators which may indicate the kinds of regions that can be expected to bounce back. The study classified regions into eight clusters in three groups on the basis of 12 indicators relating to economic performance, R&D related measures and sectoral structure. One cluster was specific to the US and is omitted here.

Knowledge Hubs

- Knowledge intensive city/capital regions – densely populated with high R&D and knowledge intensive activities and drawn to exclude wider commuting areas. Seven European regions: Vienna, Brussels, Prague, Berlin, Bremen, Hamburg.

- Knowledge and technology hubs – a wider group of the top knowledge and technology regions with high levels of R&D and high technology manufacturing.

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[14] Davies, S. (2011 forthcoming) *op. cit*.

[15] European Commission (2010) *op. cit*.

[16] Ajmone Marsan, G. and K. Maguire (2011), "Categorisation of OECD Regions Using Innovation-Related Variables", OECD Regional Development Working Papers, 2011/03, OECD Publishing, Paris http://dx.doi.org/10.1787/5kg8bf42qv7k-en

Includes southern England, most of Finland, metropolitan Sweden, Ile de France, Midi-Pyrenees, Baden Württemberg, Bavaria and Hessen, and southern Netherlands

Industrial production zones

- Service and natural resource regions in knowledge-intensive countries – mainly less populated regions but with high levels of knowledge-intensive services, a highly educated workforce, and low levels of manufacturing. Includes all of Norway and Denmark, most of Sweden, Scotland, Eastern Finland, plus northern Netherlands, Luxembourg and Bratislava.

- Medium-tech manufacturing and service providers – core industrial regions with a relatively strong knowledge base. This includes most of England and Wales, Ireland, most of France, northern Germany, Catalonia, Madrid, Navarra and País Vasco, plus Lisbon, Rome, Athens and Budapest.

- Traditional manufacturing regions – this other group of manufacturing regions includes Northern Italy, Austria, the Czech Republic, plus two regions in Hungary and one in Slovakia.

Non-science & technology (S&T)-driven regions

- Structural inertia or de-industrialising regions – these regions had relatively low scores on GDP and R&D with very high unemployment but average tertiary education levels. Includes much of Spain, southern Italy, parts of eastern Germany and western Poland, some Slovakian and Hungarian regions plus Languedoc-Roussillon in France

- Primary-sector-intensive regions – this group have the lowest scores on most variables except primary industries. Includes most of Portugal, Greece, Poland and one Hungarian region. It would probably also cover most if not all of Bulgaria and Romania if included in the analysis.

Clearly, the knowledge hubs would be expected to adjust rapidly after the recession having the strongest endowment of talent and wealth. As noted earlier, the main metropolitan regions were more resilient at the outset, and these have been the more dynamic regions for a long period of time and can be expected to continue to perform well post recession.

The industrial production zones may be expected to perform less well, although the first group should mainly perform well The medium-tech regions include some that are improving their position and others that are in decline, as to some extent are the more traditional manufacturing regions. The issue here is the direction of travel, as some of these regions are growing rapidly from a low base and may - for the medium term - be expected to continue to perform well. Those regions that have been in decline for many years will find it more difficult to recover from the recession unless a new source of growth can be identified.

The remaining non-S&T-driven regions will probably struggle. With a very weak endowment with the kinds of assets that are needed to achieve an innovation–led recovery, these

regions will be dependent on external investment to raise levels of productivity and develop new sources of growth. Some of the emerging regions in this group will continue to benefit from their long term integration into Europe but typically lag behind more industrial regions in the same country. Other regions have suffered from long-term disadvantage and, when coupled with national budgetary weaknesses, may struggle to recover in the medium term.

2.7 Summary

The pattern of regional disparities at the European scale has broadly tended towards convergence in the period up to the global financial crisis, although at a country level the pattern has been more complex, with some countries seeing diverging regional performance, especially where a strong capital region has been pulling away from the rest of the country. Analysis of smaller scale regions shows that serious disparities exist in many of the smaller countries as well, and also show the more complex patterns in larger countries where differences between large geographic regions, urban-rural divides and sectoral patterns of development all combine to contribute to complex geographies of growth.

Categorising regions by state of development and growth shows the broad trend to convergence as many of the less-developed regions made ground during the 2000s, and the stronger regions slipped back in relative terms. However, a group of old-industrial regions continued to decline relatively compared with both less-developed and richer regions, and are a source of some concern to policy-makers.

The recession has had a major impact across almost all regions in Europe and has prompted an interest in regional resilience. There are several ways to assess resilience, but here the focus is on resistance to the initial shock and an ability to bounce back to growth relatively quickly. Other assessments such as ability to learn and adapt and the nature of the return to growth can only be done after more data have become available. Initial analysis shows a very mixed pattern of impacts with the national context playing a significant role. Generally, metropolitan regions were more resistant to the shock, but among other kinds of regions the picture is confused and sometimes contradictory, with manufacturing regions performing well and badly depending on the country. Looking to the medium-term recovery, it is again the metropolitan economies and export-oriented manufacturing regions which are expected to recover most rapidly even if some of the latter were quite badly affected by the initial recession. While some more rural regions saw only modest impacts at the outset, their future prospects for growth are also limited due to their weak innovation potential.

Table 1: Summary of national regional disparities in Europe

Country	National GDP (PPS) per capita	Ratio highest to lowest NUTS II region	Description of internal disparities and recent trends
Austria	High	2.01	Growth has been sluggish in the strongest (Vienna) and weakest (Burgenland) regions, but with a robust performance in some industrialised regions, albeit with rising unemployment since the crisis
Belgium	High	2.84	Suffered less than other countries from the crisis and Vlaanderen seems to be emerging strongly, but more continuing to grow more rapidly than Wallonie so widening disparities.
Bulgaria	Low	2.61	Increasing internal disparities as a result of faster growth in the region around Sofia due to foreign investment. The cities seem to be emerging from the crisis more strongly than rural areas.
Cyprus	Low	n.a.	The major internal divide is between urban and rural areas and has not been particularly affected by the financial crisis.
Czech Republic	Low	2.77	Increasing disparities pre-crisis due to the growth of Prague, but with an increasingly complex pattern of development. The impact of the crisis has also been complex and has possibly led to convergence as rural regions have suffered less and some urban and industrial areas have seen the biggest problems.
Denmark	High	1.65	Disparities are relatively low and stable and have not been particularly affected by the crisis.
Estonia	Low	n.a.	Very significant regional differences especially between urban and rural areas and increasing over time. The crisis may have led to some convergence but has brought greater attention to disparities.
Finland	High	1.63	The recession was short-lived and growth has resumed. The downturn was greater in some low unemployment areas than in high unemployment areas, but rural regions are expected to grow more slowly due to dependence on public expenditure.
France[17]	High	2.03	France is split between a de-industrialising north whilst the south sees growth. In the short term disparities may reduce as poorer southern regions catch up but unemployment is rising in the old industrial areas. Paris continues to inhibit the development of other urban centres.
Germany	High	2.61	The effects of the crisis have been short term and unemployment has fallen back to previous levels, The new *Länder* experienced less of a recession so convergence has continued although serious disparities remain. The recent zero growth figures have not yet shown a regional effect.
Greece	Low	1.71	There are significant disparities between Athens and the rest of the country which are unlikely to be changed greatly in the current crisis which continues to worsen.
Hungary	Low	2.68	Central Hungary has continued to diverge from the rest of the country. During the recession the worst hit regions were the industrial areas if the Vienna-Budapest corridor, but these have begun to recover leaving the more rural areas still lagging behind.
Ireland	High	1.59	All parts of Ireland have seen considerable decline in the recession but the Dublin region is expected to recover more strongly leading to increasing divergence.
Italy	High	2.08	The development gap between the North and the Mezzogiorno has barely changed since the 1960s. Whilst all Italy has been badly affected by the crisis, the South has suffered even worse than the North and its fundamental weaknesses are leading to a slower recovery.
Latvia	Low	n.a.	Considerable disparities exist between the capital city Riga and other parts of the country, especially rural areas. The gap continues to widen and has been exacerbated by the strong impact of the crisis.
Lithuania	Low	n.a.	As elsewhere the capital region has much higher GDP than other county/NUTS III regions, but there are also strong differences

[17] France excludes overseas territories

			between the latter. The effects of recession have led to a narrowing of differences in unemployment but the key dynamic of the regional problem is unchanged.
Luxembourg	High	n.a.	Luxembourg is the second richest European region but still has some lower income areas which are dominated by agriculture.
Malta	Low	n.a.	The principal disparity within Malta is between the main island and the island of Gozo at 75 percent of the national GDP per capita. Growth in Gozo remains slower than Malta.
Netherlands	High	1.94	Disparities within the Netherlands remain relatively small and have been little affected by the crisis. The strong GDP performance of Groningen is largely due to gas production so the GDP figures overstate differences.
Norway	High	n.a.	The main disparities in Norway are between urban and rural areas, and especially the northern region. The national economy has been strong though and entered and emerged from the crisis with low unemployment and a strong budgetary position.
Poland	Low	2.28	Polish regions as a whole have converged with the EU average due to high growth before and since the financial crisis which had limited impact in Poland. However internal disparities are increasing due to the better performance of the industrial western regions.
Portugal	Low	1.76	Disparities in Portugal are primarily focused around the strength of Lisbon and Porto and the weakness of the interior regions. Since the crisis unemployment has risen in most regions but most strongly in the Algarve and Norte as a result of dependence on tourism and export industries respectively.
Romania	Low	3.90	Bucharest dominates the national economy and stands out from all other regions, which are themselves more diverse at NUTS III than NUTS II level. Romania has been very badly affected by the crisis with the most vulnerable being industrial regions with a dependence on mono-product-based FDI. The poorest regions have seen less impact due to a dependence on subsistence agriculture, but recovery will be faster in the industrial regions.
Slovakia	Low	3.27	Disparities are very high due to the significant gap between Bratislava and all other regions. Regional divergence has continued in recent years with a marked east-west dimension. The crisis led to a strong downturn in all regions but recovery is strongest in the western regions.
Slovenia	Low	1.43	Growth in Slovenia has been concentrated in the capital region whilst some of the more peripheral rural regions have experienced decline. Unemployment rates have increased since 2007, particularly in weaker regions based on low value added industries.
Spain	High	1.89	Spain's strong north south divide has been reinforced by the crisis with GDP growth being re-established in 2010 in the industrial regions of the north whilst more rural southern regions have seen continued decline. In spite of this unemployment has risen markedly across all regions.
Sweden	High	1.56	Disparities in Sweden are relatively low despite uneven development in favour of the urban centres. The crisis led to increased unemployment but at a more even level between regions. Industrial centres have been worst hit but are also expected to recover more quickly as global demand rises.
Switzerland	High	n.a.	Switzerland was not badly affected by the recession and has recovered strongly. Most rapid recovery has been in urban centres with diverse sectoral mix whilst rural and especially alpine regions lag behind
United Kingdom	High	4.83	The UK had seen widening income disparities up to 2008 due to higher productivity growth in the South East, but with some convergence in employment levels. The crisis and future public sector job cuts are both likely to impact most heavily on the weaker regions, although the pattern of inequality is highly complex with considerable variation below regional level.

Note: High (low) national GDP per capita is defined as GDP per capita above (below) the EU27 average.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

3. DIVERGENT TRAJECTORIES: THE MAIN DEVELOPMENTS IN REGIONAL POLICY, 2010-11

3.1 Introduction

The effects of the financial and economic crises continue to cast a long shadow over regional development in many European countries, either directly in terms of the impact on regional disparities and restructuring problems in certain regions, or through the downgrading of regional policy because of public expenditure cuts. The previous chapter has shown the divergent trends in terms of recovery at national and regional levels, and in many countries the focus of policymaker attention continues to be on fiscal consolidation to reduce budget deficits and accumulated debt, as well the slow pace of growth.

The position of regional policy varies greatly across Europe. In many countries, policy-makers are maintaining a focus on longer term objectives of regional competitiveness and growth, and/or addressing regional disparities. Indeed, there are numerous examples of new regional policy legislation being prepared, or policy reviews being initiated to strengthen regional policy for the future. Equally, there are also examples of regional policy coming under pressure, with the abolition of policy frameworks, institutions or instruments and budget cuts.

This chapter provides an overview of the main policy developments (summarised in Table 3), which are subsequently explored in more detail in later chapters. The review begins by discussing the emergence of new national regional policies in Central and Eastern Europe and how these fit into the continuing spread of a new regional policy paradigm. It then considers the reappraisals of regional policy in the Nordic area and emerging national and regional plans for regional development. The review also examines the rationalisation of regional policy in the Netherlands and the United Kingdom, and other countries where regional policy budgets have been cut. Finally, the chapter notes some refinements to regional policy instruments and areas, mainly attributable to the economic crisis.

3.2 New 'domestic' regional policies in Central and Eastern Europe

One of the most important trends over the past 1-2 years is the emergence, in parts of Central and Eastern Europe, of new 'national' regional policies that are distinct from EU Cohesion policy. Many EU12 Member States put in place national regional policy legislation as far back as the 1990s, for example Hungary (1996), Poland (1998), Romania (1998), Bulgaria (1999), Slovenia (1999), the Czech Republic (2000), Lithuania (2000) and Slovakia (2001). In general, the laws were part of the preparations for EU accession, and led to the drafting of regional development concepts or strategies, territorial administrative reforms and the creation of regional development institutions at national and regional levels. Policy instruments were, for the most part, either regional development programmes, provided to municipalities or agencies for economic development purposes (such as the Regional Development Fund in Hungary); or regional aid schemes, awarded directly to enterprises,

usually SMEs (such as the REGION and ROZVOJ schemes in the Czech Republic).[18] These domestic policy initiatives were largely subsumed into Cohesion policy programmes after 2004 (or 2007 for Bulgaria and Romania), and the strategies and institutional arrangements for Structural and Cohesion Funds determined the direction of regional policies.

Having gained substantial experience with EU Cohesion policy, several EU12 Member States are now developing or debating new domestic regional policy frameworks, partly to provide a strategic basis for the next generation of Structural and Cohesion Funds programmes after 2013, but also to determine or guide broader, national approaches to regional development.

The principal example of this trend is the launch of the new National Strategy for Regional Development (KSRR) in **Poland**.[19] The *KSRR* has been judged to be, at least partly, an assertion of Poland's domestic regional development vision, aligned with - but distinct from - Cohesion policy.[20] Covering the period up to 2020, the strategy clearly sets out its commitment to a new regional policy paradigm following the place-based approach. This includes: an emphasis on territorial potential; the development of an integrated policy for the development of a given territory; emphasis on the selective concentration of activities and investments; and a differentiated development policy approach to various types of territory (according to social, economic and environmental conditions). The KSSR is clear that this new regional policy model has significant implications for the policy implementation system. It includes initiatives that depart from the highly centralised model of governance with the aim of improving the effectiveness of policy management at national, regional and local levels. The strategy is still being rolled out, and there will be further initiatives, but it is clear that aspects of the institutional framework and the terminology supporting the regional policy system are changing significantly.

A similar development is underway in **Slovakia**.[21] The 2008 Act on Support to Regional Development adopted in 2008 stressed the primary role of domestic resources (national, regional and local) for achieving regional policy objectives, with Cohesion policy instruments seen as providing additional funding. The National Strategy for Regional Development, elaborated during 2010, made a first attempt to define the objectives of domestic regional policy, without being primarily influenced by Cohesion policy. As in Poland, the Strategy promotes an integrated approach to the development of regions based

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[18] Bachtler J, Downes R and Gorzelak G (eds) (2000) *Transition, Cohesion and Regional Policy in Central and Eastern Europe*, Ashgate, Aldershot. Bachtler J, Downes R, Helsinka Hughes E and MacQaarrie J (1999) Regional Development and Policy in the Transition Countries, *Regional and Industrial Policy Research Papers*, 36, European Policies Research Centre, University of Strathclyde, Glasgow.

[19] Ferry M (2011) Building a place-based model: regional policy developments in Poland, Chapter 21 in Regional Policy Developments in Europe: Country Reviews 2010-11, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow. Ministry of Regional Development (2010a) *Krajowa Strategia Rozwoju regionalnego 2010-2020: Regiony, Miasta, obszary Wiejskie*.

[20] Grosse, T.G (2009) *Cele i zasady polityki regionalnej panstwa*. Expert study for Ministry of Regional Development on the theme of the KSRR.

[21] Obuch M (2010) Looking for a place for regional policy: regional policy developments in Slovakia, Chapter 24 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

on use of endogenous factors (potential). Strategic priorities at national and regional level include: research and development, human resources, employment, economic competitiveness and environment. The goals of the strategy are ambitious, taking into account the prevailing sector-oriented approach with limited cooperation and coordination of interventions. However, the actual implementation of the strategy has not yet started, constrained by a major reorganisation of the institutional arrangements for regional development, including changes to ministerial responsibilities and the roles of advisory bodies.

A new law 'On More Balanced Regional Development' has also been passed in **Slovenia,** approved by the government in October 2010 and adopted by parliament in March 2011.[22] The new legislation overhauls the 1999 regional development law and is intended to bring more coherence to regional development policy and to reduce *ad hoc* interventions in individual regions. As elsewhere, place-based policy concepts have influenced the new law, characterised by: strategic policy objectives, focusing on the maximisation of regional potential; an integrated, multi-level governance approach; and a shift from investment in physical infrastructure to supporting entrepreneurship, research, innovation and soft infrastructure. While a Council for the Territorial Balance of development Initiatives, headed by the Prime Minister, has been established, other implementation arrangements required for delivering the new law are still under development.

Less radical are the revisions of the National Development Concept in **Hungary** undertaken during 2010, to be followed by updating of the National Regional Development Concept (part of the regular revisions required under the Regional Development Act). It is anticipated that the concepts will be passed by the Hungarian parliament in 2012, at the latest, as they will provide the conceptual national framework for the National Development Plan. The targets of regional development policy for the next decade are specified as: strengthening territorial competitiveness; territorial catching-up, sustainable territorial development and heritage protection; territorial integration in Europe; and decentralisation and regionalism.

Lastly, it is worth noting recent policy debates in the **Czech Republic** concerning a 'new-generation' Regional Development Strategy for 2014+ (RDS 2014+) .[23] In recent years, many national programmes of regional and sectoral policies have been cut back, with funding redirected to co-financing EU Structural and Cohesion Funds programmes. In parallel with the intense discussions on post-2013 Cohesion policy, a debate has been initiated by the Ministry of Regional Development on the future of domestic regional policy. The current thinking on RDS 2014+ reflects a move towards the prevailing regional policy paradigm in the Czech Republic. This change includes shifts: (a) from a delineation of targeted regions based on territorially-administrative units towards defining targeted regions/areas based on

[22] Kavaš D (2011) Reforming regional policy: regional policy developments in Slovenia, Chapter 25 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[23] Feřtrová M, Jungwiertová L and Blažek J (2011) Taking a breath for a change in the applied policy paradigm? Regional Policy Developments in the Czech Republic, Chapter 5 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

common ‘functional and geographic features’ (e.g. urban, peripheral areas, areas suffering from floods); (b) from the support of only ‘underdeveloped and problem’ regions towards support to all regions, but differentiated according to spatially specific potential and needs, i.e. providing differentiated packages of instruments according to types of regions; and (c) towards focusing on regional competitiveness as the primary policy goal. Proposals for the implementation of the RDS 2014+ are due to be discussed in the latter part of 2011, with a view to securing government approval in 2012.

3.3 Continued commitment to the new regional policy paradigm

The legislative developments in Central and Eastern Europe provide further examples of a regional policy paradigm involving: an overarching policy goal of promoting regional growth or ‘competitiveness’ (variously defined) in all regions of the country; the adaptation of government interventions to the needs of individual regions; use of a broad range of economic and social policy measures; coordination or integration of policy objectives and measures between levels of government and across policy sectors; flexible boundaries or spaces for intervention; and a commitment to policy learning through monitoring and evaluation of policy effectiveness. Although challenged in some quarters,[24] and certainly not universal, this paradigm has underpinned regional policy reform in numerous Western European countries over the past decade (e.g. **Denmark, Finland, France, Italy, Netherlands** (until 2010), **Norway, Sweden, Switzerland, United Kingdom (*England)*** (until 2010) and has been strongly endorsed by the OECD.[25] The approach often operates alongside a more traditional regional policy, which continues to focus on specific ‘problem regions’ characterised by underdevelopment, restructuring, peripherality or other territorial handicaps.

The New Regional Policy (NRP) in **Switzerland** is an archetypal example of this regional policy paradigm (albeit that it mainly applies to rural and mountainous regions) which has recently been validated by internal and external assessment.[26] Introduced in 2008, the NRP seeks to support structural change and growth through multi-annual programmes involving cooperation across institutional boundaries. It emphasises the importance of bottom-up initiatives to improve competitiveness and added value creation; and it stresses that geographical coherence of interventions, economic functionality and policy efficiency have priority over administrative borders in the delivery of interventions. A mid-term review of the NRP was carried out in 2010 to take stock of policy progress and refine implementation arrangements; the assessment was largely positive, finding that a paradigm shift in policy approach has indeed taken place but that further efforts to mobilise projects at local and

[24] See the review of conceptual debates in regional policy in Bachtler J, Davies S, Ferry M, Gross F, Kah S and McMaster I (2010) *Regional Policy and Recovery from the Economic Crisis: Review of Regional Policy in Europe, 2009-10,* EoRPA Paper 2010/1, European Policies Research Centre, University of Strathclyde, Glasgow (chapter 3)

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

[26] Gross F and Kah S (2011) Consolidating the New Regional Policy: Regional policy developments in Switzerland, Chapter 28 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

regional levels are required.[27] Support for the NRP was also provided by the OECD in a recent review, recommending that the impact of the NRP could be increased further through extended territorial coverage, inter-cantonal co-operation, and co-ordination of sectoral policies.[28]

3.4 Reform and reappraisal of regional policies in the Nordic area

The three Nordic countries – Finland, Norway and Sweden – have long established regional policies and share a strong commitment both to promoting regional competitiveness nationwide and to reducing regional disparities, especially via support for economic development in the sparsely-populated northern regions. Although the policy response is distinctive to each country, they share a tendency for regional policy change to be evolutionary, to be updated on a regular cycle, and to be based on analysis, evaluation and extensive consultation. All three countries are currently at various stages of policy reform with respect to regional development.

Most advanced is the situation in **Finland**, where new regional development policy objectives (for the 2012-15 period) have been under development since the start of 2011, as part of the periodic updating of the policy for each government's term of office.[29] The *leitmotif* of the 'Government Decision' is the perceived urgency of exploiting regional development potential in a more competitive global economy, where advantage is seen to depend on information, knowledge, networking and the capacity for renewal. Regional welfare and regional renewal are therefore key themes of the Decision. Recognising that different regions require different policy responses, the focus is on enabling tailored solutions to be implemented. Based on lessons from the 2007-11 period, the government is seeking to give more strategic direction, facilitate better inter-ministerial coordination and a more integrated and cross-sectoral approach to intervention at regional level. The new policy approach, expected to be approved before the end of 2011, is aligned with a reform of regional governance (ALKU) carried out in 2010 and involving a rationalisation of the State's regional authorities, and better cooperation between the new (State) centres for business, transport and environment (ELY) and Regional Councils.

A new Government Bill is also forthcoming in **Sweden**, where regional growth policy is being updated.[30] The current 'regional growth policy' focuses on the development of all areas of the country with strong local and regional competitiveness. Over the 2010-11 period, the policy has come under scrutiny, with an OECD Territorial Review[31] and a range

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[27] SECO (2011b) *Zwischenbewertung Neue Regionalpolitik (NRP) des SECO, Standortbestimmung 2010 und Folgerungen für die Umsetzungsperiode 2012-15*, Staatssekretariat für Wirtschaft, Bern.

[28] OECD (2011) *OECD Territorial Review of Switzerland*, Organisation for Economic Cooperation and Development, Paris.

[29] Vironen H (2011a) From regional reform to new policy objectives: regional policy developments in Finland, Chapter 8 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[30] Vironen H (2011b) Reassessing regional conditions for growth: regional policy developments in Sweden, Chapter 27 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[31] OECD (2010) *OECD Territorial Review of Sweden*, Organisation for Economic Cooperation and Development, Paris.

of internal studies, covering longer term regional development trends in economy, employment and population, the effectiveness of regional investment aid, and the regional policy effects of social security concessions. While the broad policy objectives and framework of regional growth policy will not change, a long list of issues has been identified as requiring further attention in the implementation of Swedish regional growth policy include[32]: a sustainability perspective in the regional growth work; opportunities for supporting climate- and energy-related activities in sustainable regional growth; the need for a greater international outlook; cooperation at and between national and regional level; regional leadership; dialogue between actors at different levels and different sectors; the use of Regional Development Programme as the instrument for planning; innovation and renewal; competence development and increased labour supply at the national and regional levels; national and regional anchoring of the Baltic Sea Strategy; implementation of the rural perspective; the importance of cities to sustainable regional growth; and access to cross-border statistics.

The most regular policy cycle is in **Norway**, where a White Paper analysing the regional problem and setting forth future policy directions is normally published a few months in advance of the general elections in September and then, having been discussed in Parliament, is ready to become part of the coalition agreement of the new government.[33] Current regional policy is based on the 2009 White Paper, which focused on mobilising 'bottom-up growth', in particular by building up the local capacity for development.[34] Work is already underway on the 2013 White Paper, which seems likely to focus on the relationship between employment growth, knowledge-intensive activities and higher education, reflecting the findings of a recent expert committee on knowledge-based workplaces commissioned by the Ministry of Local Government and Regional Development.[35] Potential priorities for the new policy are the functioning of regional labour markets, investment in broadband and transport, and the location of public sector jobs – all of which are geared to increasing the proportion of highly-qualified jobs outside the capital city region.

Lastly, under the heading of 'Nordic regional policy reviews' it is worth mentioning recent adaptations to regional policy in **Denmark**.[36] Compared to the other Nordic countries, Danish regional policy is focused more on national competitiveness and growth in a country which has limited regional disparities. Regional policy has been relatively stable since the

[32] Näringsdepartementet, '*Strategisk uppföljning av en nationell strategi för regional konkurrenskraft, entreprenörskap och sysselsättning 2007-2013*', 2009:69

[33] Wishlade F (2011) Reviewing the directions of policy; regional policy developments in Norway, Chapter 20 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[34] St.meld.nr.25 (2008-2009), English summary, *Local growth and hope for the future*.

[35] *Kompetansearbeidsplasser - drivkraft for vekst i hele landet*, Rapport fra utvalg oppnevnt av Regjeringen, NOU 2011: 3, see: http://www.regjeringen.no/nb/dep/krd/dok/nouer/2011/nou-2011-3.html?id=635173 (accessed 17 May 2011).

[36] Halkier H (2011) Quiet days are here again: regional policy developments in Denmark, Chapter 6 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

2003 White Paper[37] and the 2005 Business Development Act, which combine a commitment to equity with a growth-oriented agenda. The direction of policy was reaffirmed by a recent government review of regional development, which highlighted the importance of each region maximising its contribution to national growth while acknowledging that less well-off, peripheral parts of the country warrant special attention.[38] The electoral salience of peripheral regions was underscored during 2010 by extensive political and media debate about the 'break-up of Denmark' culminating in a government White Paper 'Denmark in Balance' (*Danmark i balance*) and initiatives including:[39] a Growth Fund for western Denmark supporting innovative projects experiencing difficulties in raising private finance; initiatives to support green growth in the Danish regions; support for coastal tourism through tax breaks for commercial letting of summer houses and the setting-up of a new research centre in Western Jutland; and infrastructure measures, including access to digital resources, health and education institutions, and simplified spatial planning regulation.

3.5 Emerging national and regional plans for regional development

Beyond the Nordic countries, the past 1-2 years have seen the emergence of new national and regional plans – although of varying status, time period and influence. They include a new national plan in Italy, and sub-national plans in **Belgium** (***Vlaanderen*** and ***Wallonie***) and the **United Kingdom** (***Scotland*** and ***Wales***). There are also new longer term spatial development plans being developed in **Austria, Poland, Estonia, Latvia** and **Romania**.

Of particular note, in **Italy**, the much-anticipated National Plan for the South was approved by the government in November 2010, followed by the Interministerial Committee for Economic Programming (CIPE) decisions on the programming of a portion of the resources to a first tranche of investments.[40] The Plan marks a departure from the approach of the National Strategic Framework 2007-13. In part, this reflects a changed socio-economic context, but the conceptual break with past regional policy is also attributable to criticisms of previous policy initiatives in reducing disparities between the *Mezzogiorno* and Centre North, in particular with regard to the 'localism' of regional programmes (see work by the Bank of Italy and SVIMEZ).[41] The Plan foresees implementation of 'strategic projects' in the fields of material and immaterial infrastructures, at three territorial scales: strategic projects of national relevance (infrastructure, environment and public goods; competences and education; and innovation, research and competitiveness); strategic projects of

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[37] Regeringen (2003) *Den regionale vækststrategi*. København: Regeringen.

[38] Økonomi- og Erhvervsministeriet (2011) *Regionalpolitisk vækstredegørelse 2011*, København: Økonomi- og Erhvervsministeriet.

[39] Regeringen (2010), *Danmark i balance i en global verden*. København, Økonomi- og erhvervsministeriet.

[40] Deliberation no. 1, 11 January 2011, 'Objectives, criteria and modalities for the programming of the resources for underutilised areas and the selection and implementation of investments for the periods 2000-06 and 2007-13', OJ no. 80, 7 April 2011.

[41] For instance, L. Cannari, M. Magnani and G. Pellegrini (2010a) "Quali politiche per il Mezzogiorno?", in L. Cannari e D. Franco (eds.) Il Mezzogiorno e la politica economica dell'Italia, Banca d'Italia, Seminari e convegni, 4, June, 2010, pp. 169-172, and G. Servidio and S. Prezioso (2011) "Industria meridionale e politica industriale dall'Unità d'Italia ad oggi", in Nord e Sud a 150 anni dall'Unità d'Italia, Sessioni di studio, Sessione II, I mutamenti della struttura economica: i settori e i mercati, Camera dei Deputati, Rome, 30 May 2011.

interregional relevance; and strategic projects of regional relevance. The Plan does not have new financial resources and assumes the redeployment of existing national and EU funding. In August 2011, the CIPE approved a first tranche of FAS resources to meet the Plan's objectives, involving some €7.3 billion to be allocated to 134 strategic interventions.

Under the multi-level governance systems that characterise many European countries, the role of sub-national or devolved administrations in economic development planning also needs to be recognised. In **Belgium**, economic development is wholly the responsibility of the provincial governments. In May 2011, the ***Vlaanderen*** government approved a White Paper on New Industrial Policy covering measures for productivity and competitiveness, innovation and clusters, infrastructure, and competences and labour market issues.[42] Similar measures feature in the recently relaunched economic development action plan of ***Wallonie*** (Marshall Plan 2.Green).[43] In the **United Kingdom *(Scotland)***, a new economic development strategy is expected was published in September 2011, following the re-election of an SNP government in May 2011. The strategy maintains broad continuity in policy goals, while introducing a new strategic priority on transition to a low carbon economy, highlighting the importance placed on the potential of the renewable energy sector to support economic growth. In ***Wales*** a 'flagship' strategy *Economic Renewal: a new direction* was launched in 2010 with the aim of addressing systematic problems in the Welsh Economy, notably infrastructure, skills and the business environment.

Other plans, recently issued or under development, have more of a conceptual or aspirational character, setting out challenges for the long-term and broad spatial development objectives, over periods of ten or 20 years. In some cases, they are a response to the EU-level debate on territorial cohesion and greater awareness of the spatial dimension of longer term challenges. Key themes running through many of the plans are globalisation, energy security, sustainable development, climate change and demographic change.

In **Austria**, the Spatial Development Concept (*Österreichisches Raumentwicklungskonzept, ÖREK*), currently under review, has been the main reference document for spatial development since its first version in 1981; the current version was produced in 2001 with a ten-year time horizon. Initially, the ÖREK was the only cross-sectoral strategy document at the federal level, although partly superseded by the Austrian National Strategic Reference Framework STRAT.AT[44] for the Structural Funds programming period 2007-13. The new ÖREK builds strongly on the ÖROK project 'Scenarios for Spatial and Regional Development of Austria 2030' which ran in 2009.[45] Its goals are to create and maintain compact settlement patterns; polycentric structures; efficient infrastructural axes; functional

[42] *Een Nieuw industrieel Beleid voor Vlaanderen*, 26 May 2011. http://ikdoe.vlaandereninactie.be/wp-content/uploads/2011/06/Witboek nieuw_industrieel_beleid.pdf

[43] *Le Plan Marshall Vert 2*, 2010, http://planmarshall2vert.wallonie.be/?q=node/167

[44] *STRAT.AT - National Strategic Reference Framework 2007-2013 for Austri*a, Österreichische Raumordnungskonferenz, Vienna, 2007.

[45] See http://www.oerok.gv.at/raum-region/themen-und-forschungsbereiche/szenarien-der-raumentwicklung.html (German)

integration of spatial units; rural centres to provide services of general interest; and thriving rural areas. In addition, it foresees the development of endogenous regional and local potentials, the management of a growing population and land use (with the integration of immigrants gaining a higher profile), and the assessment of the climate impact of spatial development interventions. However, there are no financial resources linked to the ÖREK, and its delivery relies on so-called 'implementation partnerships' comprising government bodies at other organisations at national, state and local levels.

Another such plan is **Poland's** National Spatial Development Concept (*Koncepcja Przestrzennego Zagospodarowania Kraju*, KPZK),[46] which is the most important national strategic document regarding spatial planning. When finalised, it will provide the basis for national spatial planning policy up to 2030. The operational part of the KPZK identifies common goals and notes how regional policy instruments can address spatial issues. The innovative nature of this draft reflects the new approach to the shaping of the spatial structure of the country. Whereas previous approaches conceptualised development zones spread along the main eastbound transit transport axes, the current draft places the onus on the networking of Poland's largest metropolitan areas, creating an open system connected to other metropolitan centres in Europe. At the same time, urban centres located outside the network metropolis need to obtain sufficient dedicated spatial and regional policy support (in addition to adequate transport and ICT connections) to stimulate their endogenous potentials. This reflects the place-based development model outlined in the latest draft of the *KSRR*. Territorial cohesion plays an influential role in the six strategic goals of the KPZK, which include a commitment to a polycentric settlement system, the integration of functional areas, and enhancing the resilience of the spatial structure of the country in the face of energy security and natural risks.

In **Estonia,**[47] a new National Spatial Plan 'Estonia 2030+' is presently being prepared, setting out general spatial development principles for the country as a whole and providing guidelines for county plans and international planning co-operation as well as for spatial development of infrastructure, energy production etc.[48] Although focused on physical planning, the Plan has important implications for regional policy: a key question is whether the increasing concentration of population and economic activity in the two largest city regions (Tallinn and Tartu) should be addressed, and whether the goals of the Regional Development Strategy[49] need to be reinforced with new legislation and resources to enable more balanced development to be supported.

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[46] Szlachta, J. and Zaucha, J. (2010) A new paradigm of the EU regional development in the context of the Poland's National Spatial Development Concept, *Institute for Development Working Papers* No. 001/2010, Sopot.

[47] Tõnnisson K (2011) No winds of change: regional policy developments in Estonia, Chapter 7 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[48] *Eesti 2030+* is intended to succeed the first national spatial plan (*Eesti 2010+*) and is based on a 'spatial vision' that has been discussed extensively. See http://eesti2030.wordpress.com/

[49] *Regional Development Strategy of Estonia, 2005-2015,* Ministry of the Interior, Tallinn, http://www.siseministeerium.ee/public/Eesti_regionaalarengu_strateegia_2005_2015_eng_tolge.doc

The same long-term perspective is a feature of legislation on territorial development planning currently being elaborated in **Latvia.**[50] A new law will replace current national plans with 'Latvia's Sustainable Development Strategy 2030', which is intended to be a set of guidelines for the implementation of all other territorial development strategies developed in Latvia both at the national and local levels.[51] As in Estonia, the main challenge is the economic dominance of the capital city region and other major urban areas relative to the rest of the country. However, it is not clear that there will be a national regional policy response separate from EU Cohesion policy in the current constrained financial conditions (see Section 3.6 below).

Other, longer standing initiatives of this type include the 'Strategic Concept of Territorial Development – 2020' in **Romania,**[52] Launched in 2008 and completed at the end of 2010, it focuses on Romania's position in European spatial integration by promoting regional identity, competitiveness, territorial cohesion and sustainable territorial development.

3.6 Rationalisation or downgrading of regional policies

By contrast with the stability of regional policy in the Nordic countries, and the emerging regional development plans and legislation in several parts of Europe, regional policies in some countries have come under severe pressure as a result of the economic recession – the **Netherland**s and the **United Kingdom** being the most prominent examples. Budget cuts have also been experienced in **Italy, Spain, Ireland, Greece** and **Latvia.**

During 2010-11, the institutional and policy basis for regional policy in the **Netherlands** has seen the most fundamental reform in almost a decade.[53] As part of wide-ranging cuts in public expenditure, driven by a new political philosophy following elections and change of government in 2010, the central government approach to spatial development policy has been overhauled. This includes: the abolition of the last remaining regional aid, the centralised Investment premium (IPR); cessation of the strong regions (FES) funding; and discontinuation of the place-based policy *Peaks in the Delta* which had operated since 2004. On paper, regional policy in the Netherlands will be restricted to the Structural Funds, and managing the remaining compensation fund for the Northern Netherlands related to the cancellation of a fast-rail link (*Zuiderzeelijn*). Regional development becomes mainly the responsibility of the provinces and municipalities, However, some important features of the former spatial development policy approach remain, in particular

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[50] Muravska T (2011) Policy responses to the crisis: regional policy developments in the Latvia, Chapter 15 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[51] *Latvija 2030 – Sustainable development Strategy of Latvia until 2030,* Saeima of the Republic of Latvia, June 2010. *Latvia's Sustainable Development Strategy 2030 - Background Review*, Ministry of Regional and Local Development, Riga, October 2007.

[52] *Romania 2030 – a competitive, balanced and prosperous country – Strategic Concept of Territorial Development,* Ministry of Regional Development and Tourism, Bucharest, 2010.

[53] Bachtler J (2011) National competitiveness takes priority: regional policy developments in the Netherlands, Chapter 19 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

the focus on regional business clusters of national importance, which will continue to be supported under a new enterprise policy focusing on ten 'top sectors'.[54]

The Dutch policy changes have some similarities with regional policy developments in part of the **United Kingdom**.[55] The change of national government in 2010 heralded a new approach to regional development policy in ***England***, abandoning the focus on economic development at the regional level, in favour of supporting local development – as confirmed in an October 2010 White Paper.[56] The government's priority is to move away from a reliance on a narrow range of sectors and regions (particularly financial services in south-eastern England), towards a more balanced economy based on investment and exports, with strong growth more fairly shared across the UK.[57] Under the new policy approach, Regional Development Agencies and regional Government Offices have been abolished, and the major regional incentive scheme (Grant for Business Investment) has been almost entirely discontinued. A number of new initiatives have been introduced, including a three-year Regional Growth Fund, 21 Enterprise Zones, and regional concessions on national insurance payments. In place of regional action, Local Enterprise Partnerships have been created, as part of a wider localism agenda. Elsewhere in the United Kingdom, as noted above (see Section 3.5), the Devolved Administrations have also been reviewing their own economic development policies following elections in 2011.

The policy changes in the Netherlands and United Kingdom are driven by severe budgetary pressures that, in both countries, require massive public expenditure savings involving deep cuts in departmental budgets and numbers of civil servants. They also represent a different view of the role of central government, requiring regional or local authorities to take more responsibility for economic development.

Budgetary imperatives also underlie changes in regional policy spending in other countries.

- **Italy:** following reductions and redeployment of the domestic regional policy budget in 2008a and 2009, a further cut was recently made to the domestic Fund for Underutilised Areas (FAS) budget allocations for the 2007-13 period.[58] This amounts to a reduction of €4.99 billion, €3.0 billion from the regional FAS programmes (equivalent to a flat 10 percent cut for each programme compared to the previous allocation). More recently, a further cut to the domestic FAS fund allocations of the

[54] *To the Top: Towards a New Enterprise Policy,* Letter to the Parliament from the Ministry of Economic Affairs, Agriculture & Innovation, Agriculture and Innovation, The Hague, 4 February 2011, http://english.minlnv.nl/portal/page?_pageid=116,1640360&_dad=portal&_schema=PORTAL&p_file_id=2200574

[55] Ferry M and Michie R (2011) Towards a new, post-regional policy framework: regional policy developments in the United Kingdom, Chapter 29 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[56] Department for Business, Innovation and Skills (2010) *Local Growth: realising every place's potential,* Norwich: The Stationery Office.

[57] HM Treasury and Department for Business, Innovation and Skills (2011) *The Plan for Growth*, HM Treasury, March 2011. http://www.bis.gov.uk/assets/biscore/corporate/docs/l/pu1068%20-%20local%20growth.pdf

[58] Polverari (2011) *op. cit.*

2007-13 period was introduced, amounting to €4,990.717 million, €3,003.9 from the regional FAS programmes, equivalent to a flat cut of 10 percent for each programme compared to the previous allocation (of c. 15-16 percent compared to the original allocation) and €1.99 billion from the two Interregional programmes and the *obiettivi di servizio*. With these recent cuts, the overall FAS resources for the period 2007-13 are equivalent to 75 percent of the original allocation foreseen in the NSD

- **Spain**: the main national regional policy instrument - the Inter-Territorial Compensation Fund (*Fondo de Compensación Interterritorial, FCI*) - provides funds to regional governments for financing public investment expenditure.[59] The FCI has seen a significant growth in expenditure over the past decade, rising from around €800 million in 2000 to a peak of €1.35 billion in 2009. With the onset of the crisis in 2009 and the subsequent squeeze on public finances, the budget was frozen in 2009, cut for 2010 and drastically reduced in 2011. The highest relative declines in 2011 were experienced in Cantabria (-47.1 percent), Asturias (-43.5 percent), Castilla y Leon (-41.6 percent) and Galicia (-41.3 percent). Even those regions having below-average cuts experienced major reductions: Canarias (-26.2 percent), Comunidad Valenciana (-32.8 percent), Murcia (-34.7 percent) and Castilla-La Mancha (-35.7 percent).[60]

- **Ireland:** the framework for balanced regional development has promoted the development of all regions based on growth centres (gateways and hubs). In the context of budget adjustments of €14.5 bn, which have affected almost all aspects of public expenditure, investment in the growth centres has been drastically cut back as well as regional infrastructure more generally.[61]

- **Greece:** total public expenditure for the financing of development policy in has been progressively reduced since 2008. Expenditure under the Public Investments Programme (PIP), the main funding source for Greece's development policy, was cut by more than €1.1 bn, from €9.68 bn in 2008 to €8.5 bn in 2010.[62]

- **Latvia**: despite gradual economic recovery, the decrease in State budget revenues has affected spending on regional policy implementation. National funding for regional policy has been almost entirely stopped since 2009, and EU Cohesion policy has become almost the sole source of financing for the development goals of

[59] Mendez C (2011a) Austerity cuts bite: regional policy developments in Spain, Chapter 26 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[60] *Inter-Territorial Compensation Funds' Annual Report*, Madrid, 2011.

[61] Charles D (2011) Regional policies and the national crisis: regional policy developments in Ireland, Chapter 13 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[62] Chorafa V (2011) The regional problem in times of crisis: regional policy developments in Greece, Chapter 11 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

'national' regional policy. Spending on subsidies for investment projects fell from €41 bn in 2006 to €17.3 bn in 2009[63]

3.7 Refinements of regional policy instruments and areas

Notwithstanding the upheaval caused by budget cuts in several countries, it is important to reiterate that in many other parts of Europe, regional policies are in a more stable situation. As noted in earlier sections, a commitment to regional policy is evident in the new legislation or policy reviews underway and in the general validation of the prevailing regional policy paradigm. In these contexts, the long term objectives of policy remain unchanged, and modifications to regional policy instruments and areas are frequently attributable to the economic crisis.

In **Switzerland**, one of the recovery programmes introduced in response to the economic crisis involved regional policy funding of CHF100 million being brought forward in 2009/10 to speed up project implementation.[64] In **Germany**, the *Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'* (GRW - Joint Task for the Improvement of Regional Economic Structures) saw a temporary increase in funding (of €180 million to the GRW in 2009-11 divided equally between the old and new *Länder*) as part of the German federal government's fiscal stimulus package of November 2008, but mainstream GRW spending has seen cuts in allocations in each year since 2000 and these are scheduled to continue in 2012. In **Portugal**, the government introduced a new initiative to stimulate spending in municipalities during 2011 (following up on a similar memorandum issued in 2009), making provision for higher levels of EU co-financing. Under the three main regional incentive schemes, steps were also undertaken in 2010-11 to accelerate spending, simplify procedures and increase strategic concentration.[65]

Apart from increases or acceleration of spending, the ongoing spatial effects of the crisis have led to some refinements of the areas eligible for regional assistance. In **France,** several modifications have been made since 2008, taking advantage of a population reserve of 250,120 which was originally set up to allow for flexibility in the support of employment zones facing serious economic shocks.[66] The extensions of the regional map[67] were intended, in particular, to alleviate the consequences of the reform of the defence sector.[68] Most recently, the map was amended in the context of the mid-term evaluation,

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[63] Muravska (2011) *op. cit.*

[64] Eidgenössisches Volkswirtschaftsdepartement (EVD) and Staatssekretariat für Wirtschaft (SECO) (2010) *Stabilisierungsmassnahmen: Übersicht zum Umsetzungsstand der ersten und zweiten Stufe per Ende 2009*, 26.02.2010, Bern, p. 3.

[65] Mendez (2011) *op. cit.*

[66] Gross F (2011) With defensive measures towards recovery: regional policy developments in Germany, Chapter 10 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[67] This applies to zones with more than 500 lost jobs in one sector, or job losses in up to three sectors representing at least 1.25 percent of the overall workforce over the past year. Unemployment has to exceed the national average or employment growth has to be below the national average.

[68] Davies S (2011) Solid economic growth and spending constraints: regional policy developments in Germany, Chapter 10 in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

leading to marginal changes in 14 regions (approved by the Commission in November 2010). A similar update of assisted regions in the **Czech Republic** was undertaken in 2010, in response to the spatial impact of the economic and financial crises.[69] A spatial focus on local areas suffering from the economic crisis is also the justification for the creation, during 2010, of a Renewal Fund in **Denmark**; the local restructuring areas are spread across much of the country, with particular emphasis on *yderområder* (peripheral or 'outer' areas).[70]

Other changes to regional aid maps are attributable to the Regional Aid Guidelines for the 2007-13 period.[71] As foreseen in the Guidelines, in 2010 the European Commission reviewed the position of statistical effect regions on the basis of the three-year average of the most recent GDP data available from Eurostat. In those regions where the relative GDP per capita declined below 75 percent of the EU-25 average, the regions concerned continued to be eligible for the derogation under Article 87(3)(a). Otherwise the statistical effect regions became eligible for aid under the derogation of Article 87(3)(c) from 1 January 2011. This affected regions in several EU Member States For example, in **Germany,** the European Commission's review showed that the level of GDP per capita in all four German regions (Brandenburg-Südwest, Halle, Lüneburg and Leipzig) was above 75 percent of the EU25 average in 2005-07. Since the start of 2011, therefore, these regions have no longer had Article 107(3)(a) status, but are instead covered by Article 107(3)(c).[72] This change is reflected in a federal announcement on the GRW, which notes that aid ceilings in these regions are now reduced to 20 percent (large firms), 30 percent (medium-sized firms) and 40 percent (small firms).[73]

In addition to changes in spatial coverage, the effects of the crisis explain some of the changes to regional policy instruments. In order to safeguard sites facing difficulties and to maintain existing jobs, the 'defensive' approach to applying regional policy instruments in **France** continued in 2010.[74] New measures were launched in the aftermath of the General Assembly of Industries held in March 2010; a prominent example is the Reindustrialisation Aid (*Aide à la reindustrialisation*) which aims to encourage French businesses abroad to relocate to France. New legislation on regional investment aid in **Slovenia** focuses support on disadvantaged regions, with higher intensities of support in regions affected by higher unemployment. One of the regions most severely affected by the economic crisis, Pomurje, has recently been the subject of a special law creating additional instruments for

[69] Feřtrova *et al* (2011) *op. cit.*

[70] Halkier (2011) *op. cit.*

[71] Wishlade F (2011) *Regional Aid Control 2014+,* EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow. .

[72] European Commission (2010) *Communication on the review of the State aid status and the aid ceiling of the statistical effect regions in the following National regional State aid maps for the period 1.1.2011- 31.12.2013*, Official Journal C 222, 17.08.2010.

[73] Bundesministerium für Wirtschaft und Technologie (2010a) *Bekanntmachung des Koordinierungsausschusses der Gemeinschaftsaufgabe ‚Verbesserung der regionalen Wirtschaftsstruktur' vom 10. Dezember 2010*, Berlin.

[74] Gross (2011) *op. cit.* An example is a focus of regional incentive grant (PAT) awards on extension projects safeguarding existing jobs.

investment promotion employment incentives, tax relief and priority treatment under programmes and projects. A special allocation of €14 million has also been reserved for investment in border regions.[75]

Some winding down of special aid measures is also underway, following the amendment of the EU temporary framework for State aid measures to support access to finance in the financial and economic crisis.[76] While there is scope for limited prolongation of some measures, others are being discontinued. For example, in **Germany**, a GRW crisis measure in Germany in the form of a temporary increase in the aid ceiling for large firms in certain areas – was phased out at the end of 2010.[77]

3.8 Summary

The effects of the financial and economic crises continue to cast a long shadow over regional development in many European countries. There are divergent trends in terms of recovery at national and regional levels, and in many countries the focus of policymaker attention continues to be on fiscal consolidation to reduce budget deficits and accumulated debt, as well the slow pace of growth. The position of regional policy varies greatly across Europe. In many countries, policy-makers are maintaining a focus on longer term objectives of regional competitiveness and growth, and/or addressing regional disparities. Equally, there are also examples of regional policy coming under pressure, with the abolition of policy frameworks, institutions or instruments and budget cuts.

One of the most important trends over the past 1-2 years is the emergence, in parts of Central and Eastern Europe, of new national regional policies that are distinct from EU Cohesion policy. Several EU12 Member States (**Poland, Slovakia, Slovenia, Czech Republic**) are now developing or debating new domestic regional policy frameworks, partly to provide a strategic basis for the next generation of Structural and Cohesion Funds programmes after 2013, but also to determine or guide broader, national approaches to regional development.

These legislative developments provide further examples of a regional policy paradigm focusing on regional competitiveness, through territorially differentiated and integrated interventions, delivered through multi-level systems of governance reform. The paradigm has been reflected in policy reforms for more than a decade in countries like **Denmark, Finland, France, Italy, Netherlands, Norway, Sweden, Switzerland, United Kingdom (*England*)**.

The three Nordic countries – **Finland, Norway** and **Sweden** – have long established regional policies and share a strong commitment both to promoting regional competitiveness nationwide and to reducing regional disparities, especially via support for economic development in the sparsely-populated northern regions. Although the policy response is distinctive to each country, they share a tendency for regional policy change to be

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[75] Kavaš (2011) *op. cit.*

[76] Wishlade (2011) *op. cit.*

[77] Davies (2011) *op. cit.*

evolutionary, to be updated on a regular cycle, and to be based on analysis, evaluation and extensive consultation. All three countries are currently at various stages of policy reform with respect to regional development, and policy changes have also been introduced in **Denmark**.

Beyond the Nordic countries, the past 1-2 years have seen the emergence of new national and regional plans – although of varying status, time period and influence. They include a new national plan in **Italy**, and sub-national plans in **Belgium** (***Vlaanderen*** and ***Wallonie***) and **United Kingdom** (***Scotland*** and ***Wales***). Other plans, recently issued or under development, have more of a conceptual or aspirational character, setting out challenges for the long-term and broad spatial development objectives, over periods of ten or 20 years (**Austria, Poland, Estonia, Latvia** and **Romania**). Key themes running through many of the plans are globalisation, energy security, sustainable development, climate change and demographic change.

Elsewhere, regional policies in some countries have come under severe pressure as a result of the economic recession. The **Netherlands** and the **United Kingdom (*England*)** are the most prominent examples, with wholesale policy change including the abandonment of regional policy instruments, the abolition of regional development institutions and severe cutbacks in funding. Budget cuts have also been experienced in **Italy, Spain, Ireland, Greece** and **Latvia**.

Finally, there have been a series of refinements to regional policy, involving changes to instruments and spatial coverage (**Germany, Portugal, Switzerland, France, Denmark, Czech Republic, Slovakia**). Many of these are attributable to the economic crisis, with efforts being made to provide capital for businesses or to provide support to particular areas affected by restructuring and job losses.

Table 2: Main developments in regional policy in Europe, 2010-11

Country	Main developments in regional policy in Europe
Austria	No changes to policy. The main recent development is the finalisation of the new Austrian Spatial Development Concept, ÖREK, which sets out scenarios and guidelines for spatial and regional development of the country over the next two decades.
Belgium	New strategic frameworks for economic development have been agreed: a 'Pact 2020' and New Industrial Policy in Vlaanderen; and the 'Marshall Plan 2.Green'. The frameworks prioritise growth and competitiveness but with a stronger commitment to sustainability.
Bulgaria	No changes to policy. Preparatory work has begun on a new National Regional Development Strategy 2012-2022.
Cyprus	No changes to policy.
Czech Rep.	No changes to policy. Recent policy debates have concerned a 'new generation' Regional Development Strategy for 2014+, for government approval in 2012. The new policy would involve a more functional-region approach, covering all parts of the country, and focusing on regional competitiveness as the primary policy goal.
Denmark	A government White Paper 'Denmark in Balance' introduced new measures to assist peripheral parts of the country in contributing to national growth and competitiveness: a Growth Fund; initiatives for green growth; support for coastal tourism and infrastructure measures.
Estonia	No changes to policy. A new National Spatial Plan 'Estonia 2013+' is currently being prepared, setting out principles for the spatial development of the country as a whole.
Finland	Since the start of 2011, preparatory work has been underway on a new Government Decision and regional policy objectives for 2012-15. The key themes are regional welfare and strengthening regional renewal. A reform of regional governance (ALKU) has been implemented.
France	A limited refocusing of regional policy instruments has been undertaken, mainly to safeguard local areas facing difficulties and maintain existing jobs. Support for rural areas and for major urban centres is being intensified.
Germany	No changes to policy. Budget cuts to regional policy are expected from 2012. Under the GRW, support for high-performance broadband infrastructure has been extended to regions lacking coverage.
Greece	The cutbacks to public expenditure on Greek development policy, which have been under way since 2008, are continuing. Financing of the Public Investments Programme has been reduced by almost 15 percent over the 2008-10 period.
Hungary	The National Development Concept was updated in 2010, to be followed by updating of the National Regional Development Concept. Planning priorities are: strengthening territorial competitiveness; territorial convergence; sustainable territorial development; territorial integration in Europe; and decentralisation and regionalism.
Ireland	Cutbacks to public expenditure have had a major impact on funding for regional infrastructure and investment in growth centres (in each region – intended to promote balanced development), which are the foci for the National Spatial Strategy (2002-202).
Italy	The National Plan for the South was approved in 2010. The Plan foresees implementation of strategic projects of national, inter-regional and regional relevance. Further cuts have been made to the Fund for Underutilised Areas (FAS).
Latvia	No changes to policy. New legislation on territorial development is being elaborated. Latvia's Sustainable Development Strategy 2030 is intended to set guidelines for national and local development strategies.
Lithuania	No changes to policy. Since the start of 2009, the government has initiated number of reforms including an overhaul of the territorial administration structure and a debate on the future spatial orientation of regional policy (including whether to apply a more place-based approach rather than imposed top-down approach.
Luxembourg	No changes to policy.

Malta	A strategic framework for economic development, Vision 2015, was finalised in 2010, identifying six sectors envisaged as giving Malta a competitive advantage: finance, ICT, tourism, manufacturing, health and education.
Netherlands	Following elections in 2010, regional policy has been extensively reformed, including: the abolition of the last remaining regional aid (IPR); cessation of the strong regions (FES) funding; and discontinuation of the place-based policy, 'Peaks in the Delta'.
Norway	No changes to policy. Preparatory work has started on the 2013 White Paper, focusing on the relationships between employment growth, knowledge-intensive activities and higher education. Potential policy priorities are regional labour markets, investment in broadband and transport, and the location of public sector jobs.
Poland	A new National Strategy for Regional Development was launched in 2010, setting out a vision for a domestic regional policy for the period up to 2020. The strategy includes: an emphasis on territorial potential; differentiated and integrated policies for each territory; selective concentration of investment. Implementation involves a greater role for regional and local levels. A National Spatial Development Concept is being prepared.
Portugal	During 2011, the government introduced a new initiative to stimulate spending in municipalities, by providing higher levels of public co-financing. Under the main regional incentive schemes, steps were taken to accelerate spending, simplify procedures and increase strategic focus.
Romania	No changes to policy. As a guidance document for regional development, the 'Strategic Concept of Territorial Development – 2020' was finalised at the end of 2010, promoting regional identity, competitiveness, territorial cohesion and sustainable territorial development.
Slovakia	A National Strategy for Regional Development was elaborated during 2010, representing the first attempt to define the objectives of domestic regional policy. It promotes an integrated approach to developing regions based on use of endogenous potential. Strategic priorities include: R&D, human resources, employment, economic competitiveness and environment. New legislation on regional investment aid focuses support on disadvantaged regions.
Slovenia	A new law 'On More Balanced Regional Development' was approved in March 2011 with the aim of creating a more coherent regional development policy. It focuses on the maximisation of regional potential, a multi-level governance approach, a shift from physical infrastructure investment to supporting entrepreneurship, research, innovation and soft infrastructure.
Spain	Funding for the main national regional policy instrument – the Inter-Territorial Compensation Fund – was drastically reduced in 2011, following a budget freeze in the previous two years. Regional government allocations have been cut by between 33 and 47 percent.
Sweden	No changes to policy. A new Government Bill is forthcoming to update regional growth policy. New issues have been identified requiring further policy attention, including sustainability, greater international engagement, cooperation, regional leadership, innovation and competence development.
Switzerland	No changes to policy. A mid-term review of the New Regional Policy was carried out in 2010 to take stock of policy progress; the assessment was largely positive but recommended further efforts to mobilise projects at local and regional levels.
United Kingdom	Following UK elections in 2010, a new approach to regional development in England has involved abolition of regional development agencies, regional government offices and the main regional aid. A new Regional Growth Fund and enterprise zones have been launched. Local Enterprise Partnerships have been created as part of a new localism agenda. New economic strategies have been launched in Scotland and Wales.

Source: Further details available in the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

4. FROM TRADE-OFFS TO SYNTHESIS? RECENT DEVELOPMENTS IN REGIONAL POLICY OBJECTIVES

4.1 Introduction

The regional policies of European countries generally have long term goals, related to convergence, growth, socio-economic development or restructuring. Nevertheless, in recent years there have been some changes in the scope of regional policy objectives, the emphasis placed on particular goals and the inclusion or exclusion of some issues or themes. These changes have been prompted by several factors, including: the impact of the economic crisis; political changes; preparations for the post-2013 EU Cohesion policy; and the increasing prominence of the Europe 2020 agenda. Changing policy objectives are in some cases related to new strategic thinking and debates, including the concept of 'place based' territorial development championed by the European Commission and OECD. These stress the importance of developing an integrated development approach with objectives that combine or coordinate a wide range of policies, and with interventions adapted to specific territorial scales.

This section assesses recent changes to the objectives of regional policy in European countries, as set out in legislation or in more detail in strategic documents and programmes (and summarised in Table 3). At the outset, it is important to stress that the scope and ambition of regional policy objectives vary greatly across Europe, as do the pace and direction of change, reflecting country size, political priorities, policy traditions, the status and funding allocated to regional policy and the role of EU Cohesion policy. As a result, there are different ways in which the classification of regional policy can be undertaken.[78]

In several western European countries, long-standing regional policies address the structural problems of underdeveloped territories, focusing on the reduction of regional disparities largely through regional aid instruments (e.g. **Belgium (*Wallonie*), Germany** and **Norway**. Broader policies for territorial development also exist, generally operated across all regions but taking a region-specific approach, often via regional strategies and programmes. They are often characterised by support for the business environment, focusing on innovation and entrepreneurship (e.g. **Austria**, **Denmark**, **Finland**, **Italy**, the **Netherlands** and **Sweden)**. These themes are also evident in the regional policies of **France** and parts of the **United Kingdom** and **Belgium (*Vlaanderen*)**, where policy has (had) a broader spatial development orientation and has a strategic coordination role. Where EU Cohesion policy accounts for most economic development funding, regional policy is strongly programme-based and growth-oriented, with the goal of closing the development gap with the rest of the EU (e.g. **Poland** and other EU12 countries, **Portugal**, and to some extent **Spain)**. Lastly, in some cases, regional policy is not explicit and does not have dedicated legislative, institutional or financial resources, as in **Cyprus, Ireland** and **Malta**. Yet, regional economic development objectives are expressed and addressed through broader policy frameworks.

[78] Davies S, Kah S and Woods C (2010) *op. cit.* p55.

One of the key developments in recent years is that regional policy objectives in some Member States have become less ambitious, narrowing or reducing the scope of policy intervention. In some cases, central government interventions in support of territorial development have been subject to fiscal constraints as a consequence of the global economic crisis. Another influence is a political philosophy that territorial development policies should be the responsibility of sub-national levels. Examples are the **Netherlands** and the **United Kingdom** (***England)***, where central governments have significantly reduced their active involvement in regional development intervention and revised policy objectives accordingly.

In contrast, there are countries where the objectives of regional policy are expanding in scope and ambition. This includes some Central and Eastern European countries which benefit from significant and stable allocations of EU regional development funding under EU Cohesion policy. For the past decade, regional policy objectives in these countries have largely been set by EU policy priorities, but considerable efforts are currently being made in some countries to establish or expand domestic regional policies. This is being driven by growing experience and administrative capacity (especially for strategic planning), political change, the impact of the crisis and awareness that EU and domestic objectives may not always dovetail. This trend is exemplified by the launch of new national regional development strategies in **Poland** and **Slovakia** in 2010. These represent important initiatives in defining domestic regional policy objectives which are aligned with but not primarily driven by Cohesion policy. A new **Czech** National Regional Development Strategy is to be launched in 2014.

Before discussing these and other trends in more detail, and focusing on the differences between countries, it is worth noting that the regional policy objectives of European countries share some fundamental characteristics. First, most countries implement regional policies with objectives related to both cohesion and competitiveness. These have often been seen as competing aims but there is increasing recognition of the scope (and necessity) to reconcile or combine these objectives. Second, new challenges for regional policy are gradually emerging, notably sustainable development but also issues such as demography and climate change highlighted in the Europe 2020 agenda. Third, a major concern for regional policy-makers is how regional policy can be optimally delivered, especially issues relating to decentralised implementation frameworks, the role of partnership and questions of efficiency. Lastly, encompassing many of these issues is the debate on ‘place based’ development policy which is coming to the fore in regional policy thinking and is influencing strategic objectives and interventions in various ways. The remainder of this section assesses recent change under these headings.

4.2 Cohesion and competitiveness

A long-term trend in regional policy objectives, as noted in previous EoRPA reports,[79] has been a shift in regional policy goals from being a policy primarily concerned with territorial equity to one promoting growth and competitiveness at the regional level. This change reflects the growing internationalisation of economic development and the ongoing

[79] Yuill D, McMaster I and Mirwaldt K (2009) *op. cit*.

influence of broader European priorities, including the Lisbon agenda. Nevertheless, most countries continue to implement regional policies that combine the objectives of equity (regional or territorial balance, reduction of disparities, convergence) and efficiency (maximising the contributions of regions to national growth and competitiveness). Moreover, although there has been a shift towards competitiveness objectives in recent years, in some contexts issues of territorial equity considerations are regaining some prominence.

4.2.1 Cohesion objectives

Equity considerations provide the basis for regional policy objectives in several countries. Indeed, some countries have a constitutional commitment to territorial balance (**Germany, Italy, Portugal, Spain**). For example, in **Spain**, the overarching objectives of domestic instruments are anchored in a constitutional commitment to balanced development and solidarity, which remains unaltered since its introduction in 1978.

A common objective is to reduce regional disparities in economic development or living standards, in some cases targeting specific territories or sectors. In the **Czech Republic**, the Ministry for Regional Development is obliged by the Act on Regional Development Support to prepare national regional development strategies which promote the objective of balanced national development and address regional disparities.[80]

Equity objectives may involve a focus on specific territories. In **Portugal**, constitutional commitments include explicit references to disparities between towns and between the coast and interior, along with the locational disadvantages faced by the two autonomous island regions (***Azores*** and ***Madeira***). **Slovenia** has traditionally emphasised three objectives in its regional policy: fostering polycentric development; supporting demographically endangered regions; and addressing the specific challenges of border regions. In **Malta**, while a number of policy documents focus on the development of the national economy, explicit reference is made to the regional distinctiveness of the Island region of ***Gozo***. Rather than focusing on specific areas, equity-related objectives may instead target particular sectors which are spatially concentrated. In **France**, the objective of territorial cohesion includes support for the restructuring of the defence sector, the upgrading of industrial infrastructure and other fields such as service provision.

The equity dimension is often discussed from the social objective perspective of allowing all citizens equal opportunities and rights. Equal living conditions are expressed as access to collective public services such as health, education and transport infrastructures.[81]

- In **Switzerland,** equity objectives are pursued via the New Financial Equalisation. In the absence of a constitutional commitment to equivalent living conditions, the notion of basic service provision (*service public*) has a high profile. The government defines it as 'a politically defined provision of basic infrastructure goods and

[80] The Act on Regional Development Support (No. 248/2000 Sb.), reflecting all amendments.

[81] OECD (2010) *Regional development policies in OECD countries,* Organisation for Economic Growth and Development, Paris, p15.

services, which are provided to all parts of the population and all regions according to the same principles, in good quality and adequate prices'.[82] Criteria for the optimisation of service provision relate to the coverage of the whole country and population and the quality, continuity and affordability of services.

- This interpretation of the equity agenda has particular significance in countries with dispersed settlement patterns that include peripheral, sparsely populated areas. In **Norway**, for instance, the broad objectives of regional policy are: to provide equal living conditions across the country; and to maintain the main features of the settlement pattern across the country.[83]

Lastly, it should also be noted that the global financial crisis has led to increased emphasis on territorial equity and balance, sustainability and quality-of-life in some countries. There is also increasing interest in issues of 'regional resilience', adaptability and capacity to deal with external shocks. For example, in **France**, the objective of territorial cohesion includes the introduction of measures to overcome the economic crisis. In the **United Kingdom** (***England***), the new government's objective is to create 'a fairer and more balanced economy' that: is less dependent on a narrow range of economic sectors; is driven by private sector growth; and has new business opportunities that are more evenly balanced across the country and between industries.[84] The UK government argues that the recession has emphasised spatial differentiation in the growth of private sector employment and that this is one of the basic challenges to balanced economic growth. In **Finland**, the government stresses the need to maximise development potential in the regions in a global context where competitiveness is perceived to depend on information, knowledge, networking and the ability for renewal. A new Government Decision and the formulation of objectives takes as a starting point the recognition that the most threatened regions are those without the capacity and flexibility to renew their structures and working methods in accordance with the changed external environment.

4.2.2 Competitiveness

As noted in previous EoRPA research,[85] increasing attention is being paid to growth and competitiveness objectives in regional policy. Taking account of the effects of globalisation and European integration, as well as budget pressures, policy-makers are increasingly focusing on the mobilisation of regional potential in order to stimulate growth. Recent examples of growth orientation policies include: the enhanced competitiveness orientation to policy in **France;** and the renamed regional growth policy in **Sweden**.

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[82] Schweizerischer Bundesrat (2004) Bericht des Bundesrates 'Grundversorgung in der Infrastruktur (Service public)', 23.06.2004, p. 4570.

[83] St.meld.nr.21 (2005-2006) *Hjarte for heile landet: Om distrikts- og regionalpolitikken.*

[84] Department for Business, Innovation and Skills *Local Growth: realising every place's potential* Norwich: The Stationery Office.

[85] Yuill, D., Ferry, M. and Gross, T. (2007) 'Review, Revision, Reform: Recent Regional Policy Developments in the EU and Norway' *EoRPA paper* 07/1 p31.

- In the **Czech Republic**, preparatory work on a new Regional Development Strategy for the period after 2013 indicates a significant shift in focus towards regional competitiveness concepts. Again, this broad objective is variously defined across national regional policies. A key component is a shift in emphasis in the overall objectives or rationale – away from distributive transfers aiming to compensate struggling territories, and towards resource allocation systems that promote economic change and development.

- In **Switzerland**, efforts have been made to reform financial equalisation mechanisms: instead of 'distribution objectives', regional policy should focus more on 'allocation objectives', i.e. enhancing competitiveness and promoting regional potential.[86] This was reflected in adaptations of the investment aid instrument (IHG) and the launch of the Regio Plus initiative in 1997 and culminated in the introduction of the New Regional Policy in 2008.

- Similarly, in **Sweden** there has been a shift from the notion that regional growth policy is an aid policy and instead is regarded an investment policy. In **Italy**, the new 'Plan for the South' criticises the regional policy of the past 15 years because it has operated to compensate for the lack of development rather than to generate development.

There is often a sectoral emphasis in competitiveness objectives, favouring high-value added sectors such as business services and research and development activities. For instance, in **Norway,** a recent expert committee report on 'knowledge-based workplaces' is an important element of the preparations of a new White Paper.[87] The background to the report was the perceived major structural change in the labour market, in particular that most recent employment growth has come from specialised knowledge-intensive sectors close to Oslo. In parallel, employment in primary and manufacturing sectors outside the major urban areas has declined. Moreover, the higher education sector has become concentrated in fewer places over time and many areas struggle to recruit and retain personnel in specialised and knowledge-intensive jobs. The New Industrial Policy in **Belgium (*Vlaanderen*)** aims to transform the Flemish industrial sector, based on a 'productivity offensive' and enhanced competitiveness, including a strong focus on innovation policy.

Competitiveness objectives may also have a spatial focus, emphasising the role of regional centres (e.g. **Estonia**, **Ireland**, **Lithuania**), growth poles or clusters in stimulating economic development.

- In **Poland** the first objective of the new National Strategy for Regional Development is 'supporting the growth of competitiveness of regions'. This aims to use the potential of those areas that have the greatest capacity to spur economic growth

[86] Schweizerischer Bundesrat (1996) *Botschaft über die Neuorientierung der Regionalpolitik*, 28.02.1996, 96.021.

[87] *Kompetansearbeidsplasser - drivkraft for vekst i hele landet*, Rapport fra utvalg oppnevnt av Regjeringen, NOU 2011: 3, see: http://www.regjeringen.no/nb/dep/krd/dok/nouer/2011/nou-2011-3.html?id=635173 (accessed 17 May 2011).

(i.e. the largest urban centres, in Warsaw and other regional centres which account for more than 50 percent of national GDP). The Strategy assumes that this will accelerate the development of the country as a whole, maximise opportunities offered by the Single European Market and strengthen the involvement of Polish cities in emerging global business networks.

- The former *Peaks in the Delta* initiative which, until recently, set the objectives of spatial economic policy in the **Netherlands** is interesting in this context as it combines sectoral and spatial considerations under the competitiveness heading. The strategy identified the need to remove spatial obstacles to economic growth and to ensure that 'innovative opportunities and potentials inherent in prominent knowledge clusters' could be exploited. It focused spatial economic policy on national economic priorities by supporting sectoral strengths or clusters (so-called 'peaks') in six regions. The *Peaks in the Delta* initiative has now come to an end as a result of changes to spatial economic policy introduced in early 2011. The new Dutch government introduced a new business competitiveness policy, focusing more on innovation and concentrating central government support on a limited number of sectoral strengths (top sectors) and decentralising more responsibilities to regional and local governments. However, there is still an *implicit* spatial development policy component in the government's commitment to supporting clusters. Policy-makers acknowledge that the top sectors are territorially concentrated, albeit that support for these clusters is not being provided within a regional development policy framework but through a more generic business competitiveness policy.

4.2.3 Cohesion versus competitiveness?

In some contexts, cohesion and competitiveness have been regarded as completely separate or even contradictory objectives.[88] Put simply, an emphasis on equity goals may create disincentives for commitment to growth and competitiveness while emphasis on competitiveness may exacerbate territorial disparities. For instance, in some newer Member States, where EU Cohesion policy is one of the main sources of development funding, an increased focus on competitiveness objectives in Structural Funds programmes has prompted debate. Should priority be given to the objective of external convergence of the national economy with the EU average (implying support for competitiveness objectives, including the major cities as 'growth poles')? Alternatively, should emphasis be placed on internal convergence among regions? In the **Czech Republic**, the split between cohesion and competitiveness objectives, to a certain extent, mirrors the division of domestic and Cohesion-policy funded activities. Overall, equity-related objectives are associated in particular with 'pure domestic' regional policy while competitiveness-oriented aims are linked to EU Cohesion policy. The traditional Nordic distinction between 'narrow' and 'broad' regional policies, for example in **Norway**, also reflects this division to some extent. Under 'broad' regional policy, investments are based on an assessment of where, in

[88] Hart M (2007) Evaluating EU regional policy: How might we understand the causal connections between interventions and outcomes more effectively? *Policy Studies*, Vol. 28, No 4, 2007; Kochendörfer-Lucius G and Pleskovič B (eds.) (2009) *Spatial disparities and development policy* IBRD/WB Berlin workshop series p261.

regional terms, such investments will contribute most to national growth and competitiveness. Under ‘narrow’ regional policy, specific measures are taken to promote the end result of a more balanced pattern of development across a country. Such measures constitute ‘extra’ investment, in terms of resources and other forms of help available to weaker regions.

Dealing with ‘trade-offs’ between these two overarching objectives and finding an optimal balance has been seen as the task of the political sphere. However, further theoretical reflections call into question the very existence of this competitiveness/cohesion trade-off, emphasising both the aggregate development effects of development policies based on competitiveness objectives and, on the other hand, the economic and social costs of an unbalanced development process.[89] In most countries, there is an increasing tendency for a dualistic approach that accommodates cohesion and competitiveness objectives and tries to find synergies. There are different approaches to reconciling these aims. On the one hand, efforts to develop the potential of all territories supports cohesion and competitiveness as it includes the objective of helping less developed regions contribute to aggregate economic growth. Variations of the concept of ‘endogenous development’, based on the ‘bottom up’ realisation of the potential of regional assets, combines equity considerations, and social and environmental sustainability, with competitiveness.

- In **Denmark,** an emphasis on equity coexists with a growth-oriented agenda that focuses on the role of the new regions in promoting economic development. This dual approach is evident both in the general objectives identified by government statements[90] and in the specific initiatives in the wake of the most recent White Paper. Similarly, in **Norway**, support for ‘bottom up’ growth is a significant new focus of regional policy that combines cohesion and competitiveness aims.

Processes of ‘diffusion’ are also highlighted as a means to reconcile cohesion and competitiveness-related objectives.

- The competitiveness objective of the new National Strategy for Regional Development in **Poland** aims to use the potential of those areas that have the greatest capacity to spur economic growth (i.e. the largest urban centres, in Warsaw and other regional centres). However, the objective also includes building mechanisms to diffuse development processes from these ‘growth poles’, while building absorption potential in other areas such as sub-regional centres, rural areas and other functional areas with a distinct spatial specialisation. Improving diffusion and absorption will involve strengthening linkages between urban centres and other areas (for instance through transport measures) and simultaneously supporting the development of rural areas and other areas with specific territorial characteristics.

[89] Rodríguez-Pose A (2011) ‘Spatially-blind strategies as place-based development strategies’ paper presented at Polish EU presidency *Seminar On Territorial Dimension Of Development Policies* Ostróda, Poland 18 -19 July 2011.

[90] Regeringen (2010) *Danmark i balance i en global verden*, København: Økonomi- og erhvervsministeriet; Økonomi- og Erhvervsministeriet (2011) *Regionalpolitisk vækstredegørelse 2011*, København: Økonomi- og Erhvervsministeriet.

- A similar thrust of national economic development exists in **Ireland.** The spatial dimensions of policy (based on the National Development Plan for 2007-13, the National Spatial Strategy and the Structural Funds programmes for the two NUTS II regions) provide a framework for balanced regional development and seek to develop all regions based on the growth centres of the gateways and hubs. These gateways and hubs are intended to concentrate development activity in order to gain advantages of critical mass. So, whilst the overall aim is balanced development, this is proposed by stimulating growth and competitiveness in all regions via these growth poles.

4.3 Governance objectives

The importance attached to the process of regional policy design and delivery in some countries is reflected in the inclusion of objectives that explicitly address governance issues. Incorporating these objectives is a response to changing conceptual approaches to regional development, broader administrative restructuring (including as a result of the crisis) and, in some cases, capacity-related reforms associated with EU Cohesion policy. Such objectives cover several implementation issues. For instance, in some countries there is a clear focus on the involvement of sub-regional administrative levels and actors in regional policy governance.

- As already noted, in **Norway** the 2009 White Paper placed considerable emphasis on community development and the role of the sub-national level in refining priorities and in implementation. In **Hungary**, the National Development Plan includes decentralisation and regionalisation as an objective. In the **Netherlands**, changes to spatial economic policy introduced in early 2011 include the statement that regional development is the responsibility of the provinces, cities and municipalities.

- Efficient governance is also a prominent objective in some cases (**Portugal**). In **Italy**, the new 'Plan for the South' includes an objective to increase the effectiveness of implementation, notably through: the selection of investments which are ready to be implemented; and the clarification of responsibilities and commitments of the administrations and other institutional actors by establishing 'institutional contracts'.

- The third objective of **Poland**'s new National Strategy for Regional Development covers several of these issues under its aim of creating 'the conditions for efficient, effective and partnership-based implementation of territorially-oriented development policy (efficiency)'. This relates to the institutional and legal conditions necessary for the implementation of pro-development measures (e.g. strengthening strategic approaches, improving public management, strengthening cooperation and stimulating greater social activism).

4.4 New, longer term regional policy objectives

In several countries, longer term reviews of the role of regional policies are underway, and this is prompting the inclusion of new objectives. Generally, there is growing awareness of

the variable territorial impact of long-term processes such as climate change and demographic change. In part, the policy response is defensive, reflecting concerns about the negative impact of these challenges. However, policy thinking is also motivated by the conviction such issues can provide new economic development opportunities and potential synergies with other aspects of the current regional policy agenda. Processes of administrative regionalisation and deconcentration mean that sub-national administrative bodies often have a range of supply and demand-side instruments that equip them to address these challenges. The prominence of the themes of globalisation, demographic change, climate change, and energy use and supply in the debate on future EU Cohesion policy and the overarching Europe 2020 strategy is also influencing regional policy objectives in some countries. Consequently, various new objectives are emerging on the regional policy agenda, often mapped onto longer-term development strategies.

- For instance, in **France**, the main government agency for regional policy, DATAR, includes 'strengthening areas facing challenges in terms of ageing and climate change' as one of its ten priority fields.

- There is a strong focus on 'green' or environmentally sensitive growth strategies in **Belgium**. The 'Vlaanderen in Action' strategy includes 'a green and dynamic urban region' as an objective. In ***Wallonie***, the 'Green' Marshall Plan 2 (*Plan Marshall 2.vert*), adopted in September 2009, is a strategic action plan that pools funds from different sources (e.g. regional aid, Structural Funds) to enhance development in disadvantaged areas and promote employment creation.[91] It incorporates new guidelines, particularly for broader integration of the "sustainable" dimension. The provincial government plans to introduce 'Employment-Environment Alliances' as a sixth competitiveness cluster dedicated to new environmental technologies and the reinforcement of sustainable development across all policies.

- An evaluation of the National Strategy for Regional Competitiveness, Entrepreneurship and Employment (2007-2013) in **Sweden** included, among issues requiring further attention, the potential opportunities that climate and energy-related activities provide for sustainable regional growth.[92]

- In **Austria**, demographic change is one of the key regional development issues emphasised as particularly relevant in forthcoming years. It is a prominent theme in the current review of the Austrian Spatial Development Concept, ÖREK) which sets out spatial development priorities. Demographic developments were central to a series of recent studies and projections carried out by the Austrian Spatial Planning Conference (ÖROK) as part of the review process.[93] Regional issues arising from the integration of immigrants has become a prominent theme. In May 2010, the

[91] Gouvernement Wallon (2009) *Plan Marshall 2.vert, Viser l'excellence*, 17.09.2009.

[92] Näringsdepartementet, *'Strategisk uppföljning av en nationell strategi för regional konkurrenskraft, entreprenörskap och sysselsättning 2007-2013'*, 2009:69.

[93] ÖROK (2011) ÖROK-Regionalprognosen 2010-2030. Modellrechnungen bis 2050, Wien, ÖROK-Schriftenreihe 184, Wien. Selected sections are available at: http://www.oerok.gv.at/raum-region/daten-und-grundlagen/oerok-prognosen/oerok-prognosen-2010.html (German)

Austrian Federal Chancellery published a study on the regional dimension of integration followed by a workshop in December 2010.[94]

4.5 Regional policy objectives and the place-based approach

Recent changes in policy objectives are, in some cases, related to new strategic thinking and conceptual debates. This includes the concept of 'place based' territorial development, which cuts across several of the issues highlighted above. Since 2009, a series of reports on economic development have acknowledged the frequent failure of traditional development policies to stimulate balanced growth. Advocacy of a 'place based' agenda has featured in the European Commission-sponsored independent Barca report,[95] and two OECD reports.[96] In recent years, research in different countries has also begun to explore how the 'place based' model might be implemented in different domestic socio-economic and institutional contexts.[97]

In essence, place-based approaches postulate that the potential for development in any specific territory is context-dependent, constrained by market and institutional conditions. The 'place based' conceptualisation of regional policy argues that, in order to address processes of uneven territorial development, policy interventions must prioritise "*tackling persistent underutilisation of potential and reducing persistent social exclusion in specific places through external interventions and multilevel governance*".[98] It emphasises the identification and mobilisation of endogenous potential, that is, the ability of all territories to grow, drawing on their own resources. Such thinking is rooted in a range of economic development concepts that have emerged over the past few decades: new economic geography; principal-agent theory; endogenous growth theory; new institutionalism; and new regionalism. The concept of place based development is often understood in opposition to so-called 'spatially blind' policies, of which the 2009 World Bank *World Development Report* is a recent proponent. In fact, place-based and spatially blind approaches share several characteristics, aims and assumptions.[99] Nevertheless, spatially-blind policies posit

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[94] Krajasits C and Wach I (2010) 'Sozio-demografische und räumliche Aspekte der Wanderungsbewegungen in Österreich 2002-2008', Wien. Available at: http://www.bka.gv.at/DocView.axd?CobId=39672 See also Kah S (2010) *op. cit.*

[95] Barca F (2009). *An Agenda for a Reformed Cohesion Policy, A Place-Based Approach to Meeting European Union Challenges and Expectations.*

[96] OECD (2009a) *How Regions Grow,* Organisation for Economic Cooperation and Development, Paris.

OECD (2009b) *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, Organisation for Economic Cooperation and Development, Paris.

[97] OECD (2008) *Territorial Review of Poland,* Organisation for Economic Cooperation and Development, Paris. Tomaney J (2010) Place-based approaches to regional development: global trends and Australia implications, Sydney, New South Wales, Australia: Australian Business Foundation, 2010.

[98] Barca (2009) *op. cit.* pxi.

[99] Barca F (2011) 'Alternative Approaches to Development Policy: Intersections and Divergences', paper presented at Polish EU presidency *Seminar On Territorial Dimension Of Development Policies,* Ostróda, Poland, 18 -19 July 2011.

development intervention regardless of the local specific conditions. This implies "policies that are designed without explicit consideration to space".[100]

Place-based thinking is reflected in current regional policy objectives to varying degrees. In some cases, it is cited explicitly in national strategic development documents as a guide for framing objectives.

- In **Switzerland**, there has been an increased interest in place-based concepts in regional policy in recent years. A report was commissioned in 2009 in order to identify whether the concept of place-based policy is relevant for the different policy areas under *Standortförderungspolitik* (regional policy, tourism policy, location marketing, export promotion, SME policy).[101]

- In **Poland**, the development of the new National Strategy for Regional Development coincided with OECD work on a territorial review of Poland. The review recommended that Poland "increasingly needs to encourage differentiated territorial place-based approaches, with appropriate incentives, rather than a one-size-fits all policy".[102] The KSRR itself cites the OECD territorial report and other OECD work. A 'place-based' approach is one of the fundamental principles of regional policy highlighted in the new strategy, according to which: "the place-based approach, relates to a better use of hidden or underutilised resources, including human resources, and expertise in regions with different levels of development".[103]

- In the **Netherlands**, the evolution of regional policy has been closely linked to OECD reviews and studies. An OECD review of the Netherlands, published in 2010 (conducted prior to the recent reform of regional policy), stated that: *"Policies have become increasingly place-based, focused on strong regions, and increasingly holistic, rather than sectoral. Accessibility and the challenges of climate change and water have been emphasised over the last years. In addition, governance arrangements have been strengthened by focusing on the common programmes, administrative simplification and long-term projections"*. [104]

- Similarly, the alignment of regional policy with place-based ideas is recognised in the OECD's 2008 Territorial Review of **Portugal**, which states that 'Portuguese public authorities have increasingly tried to address regional specificities more

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[100] World Bank (2009) *World Development Report 2009: Reshaping Economic Geography*, World Bank, p24.

[101] Bachtler J, Gross F and Yuill D (2010) *Stellenwert der Place-based Policy für die Standortförderungspolitik des SECO*, Final Report to the Staatssekretariat für Wirtschaft, European Policies Research Centre, University of Strathclyde.

[102] OECD (2008) *Territorial Review of Poland* Organisation for Economic Cooperation and Development, Paris p27.

[103] Ministry of Regional Development (2009) Krajowa Strategia Rozwoju regionalnego 2010-2020: Regiony, Miasta, obszary Wiejskie, Załączniki p76.

[104] OECD (2010) *OECD Economic Surveys: Netherlands 2010*, Organisation for Economic Cooperation and Development, Paris, 2010, p.22.

> directly and to ensure greater coherence across the central government's sectoral interventions at the regional level.'[105]

Place-based approaches are also associated with debate on the future reform of EU Cohesion policy (notably through the aforementioned Barca Report). The EU perspective on the place-based approach is particularly prominent in Member States where EU Structural Funds are crucial to development policy (e.g. **Greece**, **Latvia**).

It is important to note the conviction in many countries that, although not explicitly stated or discussed, place-based principles are fundamental to existing regional policy objectives. An issue here is that commitment to a place-based approach can have different emphases and interpretations. Nevertheless, some fundamental components of the place-based approach can be identified. Although not explicitly mentioned, these are evident, for instance, in current regional policy objectives in **Sweden**.

In discussing the detailed characteristics of place-based policy, three cross-cutting features can be used: a flexible conceptualization of different geographical scales and boundaries; the development of an appropriate policy based on cross-sectoral cooperation (each sector is perceived to meet their goals more efficiently if different territorial specificities are taken into account)[106]; and multi-level governance, since places are not independent but rather dependent on decisions made at different levels.[107]

4.5.1 Flexible categorisation of space

The first component of a place-based policy approach is a flexible commitment to the identification and categorisation of different territories. The aim is to enable regional policies to target territories for strategic intervention that may not correspond to regional administrative boundaries but whose function may be shaped by a range of socio-economic processes and public policy interventions. In several cases, this is illustrated by efforts to bring together economic development and spatial planning objectives.

- In the **Netherlands**, alongside the launch of the *Peaks in the Delta* development initiative, the 2006 National Spatial Strategy Spatial Memorandum was an important statement of the place based approach, combining both physical planning and economic development objectives. At the time, this was heralded as a turning point in spatial development policy,[108] and involved several distinctive features. The

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[105] OECD (2008) *OECD Territorial Reviews: Portugal,* Organisation for Economic Cooperation and Development, Paris.

[106] In addition to regional growth policy, this involves other policy fields such as transport and infrastructure, university and R&D, and agriculture and forestry.

[107] S. Lindblad of the Ministry of Enterprise, Energy and Communications, 'Implementation of Territorial Cohesion in Sweden', *Presentation at the VASAB Annual Conference in Warsaw*, 8 February 2011

[108] Priemus H (2004) Spatial Memorandum 2004: A Turning Point in the Netherlands' Spatial Development Policy, *Tijdschrift voor Economische en Sociale Geografie*, 95(5), 578-583. Zonnefeld W (2005) In search of conceptual modernization: The new Dutch 'National Spatial Strategy', *Journal of Housing and the Built Environment*, 20, 425-443.

spatial strategy was explicit about where and how spatial development should take place, not just as a guideline, but as a spatial framework for the allocation of government resources. It identified key centres and areas where there were perceived opportunities for economic development (mainports, brainport, greenports) and it defined urban networks and key transport axes. This approach is continuing under a new spatial strategy currently being drafted.

- Similarly, in **Poland** the draft National Spatial Development Concept (KPZK) changes the state approach to spatial planning policy in several ways.[109] It ends the dichotomy between spatial and regional policy issues, bringing them together under the overall heading of strategic development. The operational part of the KPZK identifies common goals and notes how regional policy instruments can address spatial issues.

- In **Portugal,** spatial planning has been reinforced through the establishment of a National Spatial Policy Programme (PNPOT) identifying a series of territorial challenges and strategic objectives (e.g., preserving landscapes and biodiversity, promoting the polycentric development of the country, etc). The plan was conceived as an umbrella strategy that could help to emphasise the territorial dimension of various sectoral plans and to ensure coherence between them.

There has been a strong rural dimension to this process of territorial categorisation in some countries. For example, in the **Czech Republic**, the incorporation of ‘place-based approaches’ into policy thinking was initially pioneered as part of rural development support. However, there is an increasing urban dimension to this integration of spatial and economic development plans.

- In **Switzerland**, the Spatial Concept Switzerland, which is currently being discussed, is intended to be a guidance framework for all spatially-oriented activities. Most recently, the importance of applying a place-based policy in terms of spatially differentiated approaches was emphasised explicitly in the field of agglomeration policy. This refers, on the one hand, to a distinction between urban and rural areas and, on the other hand, to a differentiated approach to individual agglomerations.[110]

- In the **United Kingdom (*England*),** the government paper, *Understanding Local Growth*, published in October 2010, includes elements strongly associated with current, place-based approaches, including an emphasis on integrated territorial development and functional economic areas. It argues that policy should focus on how different functional economic areas can respond to market forces, developing a specific understanding of what prevents firms and people within a given place

[109] Szlachta J and Zaucha J (2010) ‘A new paradigm of EU regional development in the context of Poland’s National Spatial Development Concept’, in Churski P and Ratajczak W (eds.) (2010) *Regional development and regional policy in Poland: first experiences and new challenges of the European Union membership* PAN: Warsaw p. 165.

[110] Bundesamt für Raumentwicklung ARE and Staatssekretariat für Wirtschaft SECO (2011) *op. cit.*, p. 42.

from realising their full potential. For this, the paper turns to agglomeration theory. It argues that enabling people and firms to benefit from proximity to 'centres of activity', rather than larger administrative units such as regions, brings beneficial national and sub-national economic outcomes. There is a clear focus on the role of 'centres of activity' such as cities, city regions and clusters: "*The harnessing of the potential benefits of agglomeration means enabling the growth of England's economic centres, principally cities and major towns across the country in which there are opportunities for economic growth*."[111]

4.5.2 'Territorialisation' of development funding

The second component of a place-based approach is a commitment to applying a territorial 'lens' to the scope and impact of all development interventions. This often involves efforts to identify and integrate a range of funds under different policy sectors, ministries and departments that flow to specific territories.

- In **Switzerland**, the place-based policy approach includes an objective to involve other sectors in regional policy and to have a differentiated approach to policy-making more generally. This is reflected in the report (*Botschaft*) on regional policy for the 2012-2015 period which underlines the importance of a spatial component to policy interventions relating to competitiveness and innovation.

- In **Poland**, a key stage in the development of the new regional policy framework is a process of so-called 'territorialisation', whereby the Ministry of Regional Development, in cooperation with individual ministries and departments, will review the system for the territorial allocation of development resources. This will comprise an assessment of the efficiency and usefulness of the distribution mechanisms used in sectoral policies and the financial instruments used by regional and local authorities from the perspective of the regional policy objectives set out in the NSRR. The aim is to achieve greater transparency and stronger coordination of financial and policy inputs in a given region, and to use this as a basis for legal agreements on development policy between national government and regions.

- In **France**, the role of DATAR, as a body overseeing inter-ministerial coordination and ensuring the dialogue with regional State services and local authorities, is crucial in efforts to develop integrated development strategies. DATAR is involved in the development and implementation of the State-region contracts and contributes to a number of sectoral policies (e.g. economic policies, research and higher education, health care, infrastructure).

- In **Portugal**, there have been efforts to strengthen inter-sectoral coordination, notably through Cohesion policy structures. The search for a more coherent territorial implementation of policies was translated into a strong impetus from the

[111] DBIS (2010) 'Understanding Local Growth', *BIS Economics Paper* No.7, Department of Business, Innovation and Skills, London, p25.

central government to harmonise its interventions via Commissions for Regional Co-ordination and Development (CCDRs).

- The term 'place-based policy' has not been part of the regional development lexicon in **Norway**. However, a number of Norwegian policy documents that long predate the Barca Report and recent OECD work refer to policy approaches that would seem to bear a striking similarity to the notion of 'place-based policy'.[112] In the 2009 White Paper, a government minister stressed that regional policy "needs to be tailored to the situation on the ground and to the specific opportunities and challenges faced by individual regions".[113] It includes a commitment to influence sectoral policies at the policy formulation stage so that they take account of regional policy considerations.

4.5.3 Multi-level governance

The third dimension of place-based policy objectives is multi-level governance. This system of regional policy implementation is crucial to the place-based model. As already noted, several countries include a commitment to multi-level governance principles in their regional policy objectives. The identification of local potential requires significant capacity at sub-national levels. However, these potentials must be articulated in the context of national and EU-level development goals, stressing coordination and capacity for robust monitoring and analysis at higher levels also.

- In **Finland**, the objective of strengthening multi-level arrangements has been recognized as a prerequisite for the delivery of tailored place-based policy solutions for some time. However, the practical tools for its implementation were not realised until the regional cohesion and competitiveness programme (KOKO) was launched in 2010. The programme is based on the region's self-motivated development on the basis of their specific strengths. The programme supports local-level strategic development and improves cooperation between regional development actors.

- In the **United Kingdom (*Scotland*),** there is a continued emphasis on local-level inputs into economic development, involving local actors who know local priorities, and using local asset bases (as the squeeze on public sector spending continues). This is a future priority both for EU Structural Funds in Scotland, with potentially greater use of Community Planning Partnerships, and within domestic policy. Since 2007, there has been increasing reliance on local government (councils) and partnerships at local level as promoters of economic development. A central element of the new relationship was the ending of ring-fencing of local government funding and the creation of a Single Outcome Agreement (SOA) between each council and the Scottish Government. In 2008, the government agreed SOAs with all

[112] St.meld.nr.21 (2005-2006) *Hjarte for heile landet: Om distrikts- og regionalpolitikken*: - English summary: *A new regional policy – for different regions: globalization changes the conditions for regional growth*, p4.

[113] St.meld.nr.25 (2008-2009), English summary, *Local growth and hope for the future*.

32 Councils in Scotland and with some Community Planning Partnerships (CPPs).[114] Through this process, the Scottish Government is prioritising sub-regionality; local government can now prioritise economic development at local level if it so chooses.

4.6 Summary

Assessment of the objectives of regional policy in EU Member States reveals some changes in the scope of regional policy objectives, shifts in the emphasis placed on particular goals and the recent inclusion or exclusion of certain issues or themes. These changes have been prompted by several factors, including: the impact of the economic crisis, political change, preparations for the next Cohesion policy financial perspective and the increasing prominence of the Europe 2020 agenda. Changing policy objectives are, in some cases, also related to new strategic thinking and conceptual debates.

There is some variation among European countries in terms of the general scope and ambition of regional policy objectives. In the context of political change or as a response to the economic crisis, regional policy objectives in some countries are becoming less ambitious, favouring limited intervention. In contrast, there are countries where the objectives of regional policy are expanding in scope and ambition. This includes some EU10 countries which benefit from relatively significant and stable allocations of EU regional development funding under Cohesion policy. In these cases, significant efforts are being made to establish or expand domestic regional policy objectives.

Nevertheless, an assessment of contemporary regional policy objectives in Europe reveals some fundamental, shared characteristics. A long-term trend has been a shift in regional policy goals from being a policy primarily concerned with territorial equity or cohesion to one promoting growth and competitiveness at the regional level. Although there has been a shift towards competitiveness objectives in recent years, in some contexts issues of territorial equity considerations are regaining prominence. Nevertheless, most countries continue to implement regional policies that attempt to integrate or synthesise both objectives. Current thinking stresses the aggregate development effects of development policies based on competitiveness objectives as well as the economic and social costs of an unbalanced development process.

The importance attached to the process of regional policy design and delivery in some countries is reflected in the inclusion of objectives that explicitly address governance issues. Various new objectives are emerging on the regional policy agenda, often mapped onto longer-term development strategies. The agenda for regional policy has been broadening to incorporate new policy themes, in particular climate change and alternative energy, environmental sustainability, energy security, demographic change (including migration and demographic ageing). Such issues are regarded as providing new economic development opportunities and potential synergies with other aspects of the current regional policy agenda.

[114] http://www.scotland.gov.uk/Topics/Government/local-government/SOA

Recent changes in policy objectives are in some cases related to new strategic thinking and conceptual debates. This includes the concept of 'place-based' territorial development which emphasises the identification and mobilisation of the potentials of specific territories, (i.e. the ability of all territories to grow, drawing on their own resources). Place-based thinking is reflected in current regional policy objectives to varying degrees. In some cases, it is cited explicitly in national strategic development documents as a guide for framing objectives. In other cases, some of the fundamental components of the place based approach are established principles on which policy objectives are based. Three cross-cutting features are: a flexible conceptualization of different geographical scales and boundaries; the development of an appropriate policy based on cross-sectoral integration; and the establishment of a multi-level system of governance that is capable of identifying and responding to varied combinations of policy issues in specific contexts.

Table 3: Developments in regional policy objectives in Europe, 2010-11

Country	Main developments in regional policy objectives
Austria	New edition of Austrian Spatial Development Concept (ÖREK), approved 2011, maintains established objectives: compact settlement patterns; polycentric structures; efficient infrastructural axes; functional integration of spatial units; rural centres and, thriving rural areas. Additional foci include: endogenous regional and local potentials, managing growing population and changing land use and the impact of interventions on the climate.
Belgium	'Vlaanderen in Action' has horizontal focus (innovation and regional strengths and includes 'a green and dynamic urban region' as an objective. Focus on environmentally sensitive growth strategies in Wallonie. The 2009 'Green' Marshall Plan 2, aims to enhance development in disadvantaged areas and promote job creation and incorporates guidelines for integration of "sustainable" dimension.
Bulgaria	Legislation sets tackling regional and spatial inequality as the primary goal of regional development policy. Within this, objectives are: strengthening the competitiveness of the economy; development of human capital; and achievement of territorial cohesion. Preparations for the new Cohesion policy financial perspective reorienting objectives.
Cyprus	Strategic Development Plan 2007-2013 aims to enhance territorial and social cohesion through integrated urban regeneration and improve the 'attractiveness' of rural areas through agricultural diversification and mobilisation local government.
Czech Republic	Objectives are to achieve balanced national development and balanced development within regions. Strategy for Regional Development (2007-13) sets out the aim – to increase competitiveness and social conditions in the regions to a level comparable with developed regions of Europe, and halt and reduce excessive regional disparities. Preparatory work on a new Regional Development Strategy indicates increased focus on regional competitiveness.
Denmark	No major change. Emphasis on interregional equality and support of peripheral regions in 2003 White paper coexists with a growth-oriented agenda that focuses on the role of the new regions in promoting economic development in 2005 Business Development Act.
Estonia	No change. Regional Development Strategy sets out an overall objective of sustainable development of all regions, based on individual territorial capital. A secondary objective is to halt concentration in the capital region. Conceptual basis for regional policy is mostly connected to the values of "quality of life" and "equal accessibility for public services".
Finland	New, long-term regional development strategy, adopted in 2010, prioritises development all regions and support for weaker regions. New Government Decision development potential in the regions in a global context where competitiveness is perceived to depend on information, knowledge, networking and the ability for renewal.
France	France continues to promote a twofold objective in its territorial development policies. Territorial attractiveness stresses competitiveness and innovation and takes a forward-looking approach across all regions. Territorial cohesion supports measures to overcome the economic crisis, supporting the restructuring of the defence sector and the preparation of the industrial infrastructure for future decades.
Germany	No major change. Active regional policies aim to create and safeguard jobs and reduce locational disadvantages of weaker regions, reduce regional disparities, strengthen aggregate economic growth, and support the constitutional goal of equivalent living conditions. GRW aims to provide a means of coordinating federal and *Land* support for structurally weaker regions.
Greece	Regional policy strongly aligned with EU Cohesion policy. Overall objective is to increase the country's growth potential, but attention also paid to balanced growth through the development of the less privileged regions. Emphasis on enhancement of competitiveness, reflecting the Lisbon agenda and the core focus on broader Cohesion policy priorities.
Hungary	No change. Based on recent NDP (2007-13) the targets of regional development policy are until the year 2020: strengthening of territorial competitiveness; territorial catching up; sustainable territorial development and heritage protection; territorial integration to Europe; decentralisation and regionalisation.
Ireland	Economic development priorities set by National Development Plan and National Spatial Strategy. These prioritise balanced regional development and development of all regions based on the growth centres. Economic crisis emphasises national recovery rather than regional policy.
Italy	New "Plan for the South" launched with pro-development approach, prioritising infrastructure, skills and education, research and innovation and competitiveness. Also priorities for the improvement of the socio-economic environment and of the conditions in which citizens and firms operate. Focus on key strategic projects and effective implementation.
Latvia	No change. Regional development is considered to be an important dimension of the country's 2007-13 NDP. This highlights the need to minimise socio-economic differences between territories, and building on the distinctive characteristics of each territory.

Lithuania	Regional Development law sets out key goals: reduction of social and economic disparities between and within the regions; promotion of balanced and sustainable development of the entire territory. Accompanying Regional Policy Strategy sets objectives of territorial and social cohesion in living standards and employment and improved competitiveness in regional growth centres.
Luxembourg	Regional policy is largely synonymous with national industrial policy. In recent years, greater emphasis placed on diversification, competitiveness and 'Europe 2020 strategy'. Government's 2010 strategic plan to improve competitiveness made "R&D" objective is a focal point.
Malta	No change. National Strategic Reference Framework (2017-20130) sets out four strategic objectives: sustaining a growing, knowledge based completive economy, improving Malta's attractiveness and the quality of life, investing in human capital and addressing Gozo's regional distinctiveness.
Netherlands	Significant changes in 2011, with cessation of central government support and a sectoral policy approach, mean that there is now no overarching or *explicit* national policy framework or objectives for regional policy. Still implicit central government involvement through support for clusters. New draft National Spatial Strategy includes goal to enhance competitiveness by strengthening spatial and economic infrastructure.
Norway	2009 White Paper includes an enhanced focus on bottom-up growth. Goals are: to establish/maintain conditions; to retain main features of settlement pattern; to pursue all-region approach, tailoring policy to needs; to use links between small cities and larger urban areas to stabilise settlement structures and drive forward development; to recognise the bottom-up nature of development Local capacity seen as key precondition for development.
Poland	Current generation of strategies combine equity and efficiency aims with increasing focus on efficiency. New National Strategy for Regional Development has objectives: 'supporting growth of competitiveness of regions (competitiveness); 'building territorial cohesion and preventing marginalisation of problem areas (cohesion)';and, 'creating conditions for efficient, effective, partnership-based implementation of development policy (efficiency)'
Portugal	Constitutional commitment to promote the economic and social cohesion of the whole country. In the government's 2010-2013 programme, regional policy objectives are: a place-based and integrated sustainable development approach that pursues equal opportunities; the development of new centres within a polycentric urban system; and economic and infrastructure modernisation to create wealth in all territories.
Romania	Regional Development Law sets out the objectives to reduce regional disparities, ensure sectoral policy coordination at the regional level, and stimulate interregional cooperation. The main objective of the NDP is the reduction of the development gap between Romania and the EU. Preparations for next Cohesion policy period prompting strategic review.
Slovakia	Cohesion policy still provides main framework for objectives but new *National Strategy for regional development* approved in 2010. Supports integrated approach to development of regions based on use of endogenous potential. Strategic priorities at national and regional level include: research and development, human resources, employment, economic competitiveness and environment.
Slovenia	Draft of new Law on more balanced regional development approved in 2011. Key issues are: addressing spatial concentration of economic activity, cross-sectoral integration and multi-level coordination of territorial development policies; regionalisation of implementation; focus on cross-border issues; focus on entrepreneurship, research, innovation and soft infrastructure. Economic crisis and capacity issues delaying implementation.
Spain	No recent changes to the objectives of the ICF or the Regional Investment Grant. The overarching objectives of both instruments are anchored in a constitutional commitment to balanced development and solidarity, which remains unaltered since its introduction in 1978. The objectives of the NSRF and Cohesion programmes have also not changed, essentially based on the Lisbon strategy's growth and jobs objectives.
Sweden	Regional growth policy objectives unchanged in the past year and continue to support *'the development of all areas of the country with strong local and regional competitiveness'*. The policy places an increasing emphasis on individuals, as well as on the local and regional level actors to take responsibility for the state's resources in order to generate growth.
Switzerland	Ultimate objective of New Regional Policy is to stabilise and improve regional labour markets based on export (to other regions, cantons or countries), entrepreneurship and innovation in a long term perspective. Some themes receiving greater focus (e.g. innovation policy and transparency). 2006 Federal Law on Regional Policy contains an underlying commitment to cohesion. Equalisation objectives pursued via the New Financial Equalisation
United Kingdom	Significant change following 2010 elections. New approach emphasises local autonomy, role of private sector and market-based organising principles. 2011 *Plan for Growth* includes equates 'rebalancing' the economy with a move away from a reliance on a narrow range of sectors and regions, towards a more even pattern based on investment and exports, with strong growth more fairly shared across the UK.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

5. NEW SPACES AND GEOGRAPHIES: RECENT DEVELOPMENTS IN THE SPATIAL COVERAGE OF REGIONAL POLICY

5.1 Introduction

Across Europe, a new dynamic is evident in the way that policymakers are thinking about the geography of intervention in regional development. This evident both at European level – in the new EU objective of territorial cohesion, included in the Treaty of Lisbon – and under national regional policies. This is part of the long-term shift to spatial targeting as part of the paradigm shift in regional policy.

So-called ‘all-region’ policy approaches have become more dominant in many countries over the past years. However, several countries retain major regional policy instruments targeting a specific part of their territory (discussed further in Section 5.2 below). At the same time, the majority of regional policy approaches across Europe include instruments with distinctive geographies, such as urban centres as growth drivers in the context of a functional region approach (Section 5.3.1) or spaces with special features that need tailor-made instruments (Section 5.3.2). Some rethinking of the most suitable implementation level for policies has been underway in some other countries, with a greater focus on the local dimension (Section 5.3.3). Spatial targeting at international level is also gaining in importance in the context of territorial cooperation across borders (Section 5.4.1), and it is evident in the launch of macro-regional strategies in recent years (Section 5.4.2).

5.2 All-region approach and spatial targeting

National approaches to domestic regional policy vary considerably (see Table 6), but a key feature of the paradigm shift in regional policy over the last decade is that policies have been targeting all regions in a country, with the aim of improving their territorial capital. Economically strong as well as disadvantaged areas are the subject of strategies tailored to individual regional needs. Every region is expected to maximise opportunities for growth and competitiveness in order to increase national efficiency.

This is evident in the regional policies of **Denmark**, **Finland** and **France**. A typical example is **Sweden**, where policy aims to give all parts of the country opportunities to develop their own potential and to contribute to the common good. The underpinning idea is that the higher the number of strong and growing regions, the better it is for Sweden and for the weakest regions. At the same time, it is recognised that regional growth policy interventions need to be tailored to specific regional conditions.[115]

In spite of a general all-region approach, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. For example, regional policy in **Denmark** has been moving towards an all-region approach with the launch of the regional growth fora in all five new regions in 2007. At the same time, the government report on regional growth in

[115] In order to assess the basis for tailored measures, an analysis of the Swedish regions is currently being prepared, and the final report is due in December 2011.

May 2006 formalised the role of spatial selectivity in Danish regional policy by announcing the designation of peripheral (*yderområder*) areas that would benefit from targeted support from various programmes, national as well as regional and European. At least 35 percent of expenditure on regional development projects should be to the benefit of the designated peripheral areas in which only around 10 percent of the Danish population live. Similarly, regional policy in **Norway** distinguishes between an all-region policy and instruments focused on peripheral and sparsely-populated regions. A differentiated all-region policy, primarily implemented at the county level, applies across the country, with resources allocated on the basis of a 'district index' to produce an assessment of needs. Although policy applies throughout Norway, a spatial orientation in favour of the more disadvantaged regions is implicit in the way in which funding is allocated. Specific policies for peripheral areas include regional investment aid, social security concessions, transport aid and a set of measures specifically directed at the northernmost parts of the country.

It is also important to note that some countries have strong regionally-selective policies, for example in Germany, with its long-standing GRW instrument, Italy with its Fund for Underutilised Areas, and Switzerland, which introduced its NRP in 2008.

- The GRW (Joint Task for the Improvement of Regional Economic Structure) in **Germany** focuses on structurally weaker areas throughout Germany, with higher levels of expenditure and higher aid ceilings in the new *Länder*. GRW funding in the new *Länder* contributes to the Solidarity Pact, which funds a range of additional federal programmes, including the GRW in the new *Länder*, the Investment Allowance and support for innovation in the new *Länder*. GRW designation in 2007-13 is based on unemployment rates, wages, employment forecasts and an infrastructure indicator.

- In **Italy**, the strategic focus is on the *Mezzogiorno*. Notwithstanding the reprogramming of the FAS (Fund for Underutilised Areas), the commitment to ring-fence 85 percent of this resource for the *Mezzogiorno* regions has been maintained, at least in principle.

- In **Switzerland**, the launch of the NRP in 2008 was accompanied by a major revision of the spatial coverage of regional policy. Historically, the focus was almost exclusively on mountainous areas, with some support available in parts of the *Mittelland*. Under the NRP, two types of areas are targeted: regions active in European territorial cooperation; and regions displaying the specific development problems and potentials of mountainous and rural areas. With respect to the second category, an 'impact-oriented spatial approach' was introduced, which means that projects need to be effective in mountain, border or rural areas no matter where they are initiated. While large agglomerations and urban cantons were excluded, they may receive NRP funding if they can prove that funding will benefit structurally-weaker areas. Although the funding parameters for the 2012-2015 period will increase slightly to cover parts of comparatively urban cantons, the territorial focus of the NRP tax allowances has been increased. At the start of 2011, coverage was reduced by almost two-thirds to 10.1 percent of the Swiss territory.

More broadly, regional selectivity is most evident under regional aid maps (governed by EU State aid rules) that prioritise distinct spaces. Having been agreed with the European Commission, the maps are binding for the whole 2007-13 period, and some Member States (**France, Ireland** and **Italy**) used the facility provided for in the Guidelines to change their assisted areas map in the course of the period.[116]

The importance of spatially targeted interventions is emphasised by the Fifth Cohesion Report: key proposals for Cohesion policy 2014+ are to support or reinforce the urban agenda, functional geographies, areas facing specific geographical or demographic problems and macro-regional strategies:[117]

- *The role of cities:* an 'ambitious' urban agenda is required, involving a clearer identification of urban actions, resources and targeted cities. Urban authorities should also play a stronger role in the design and implementation of urban strategies.

- *Programme management adapted to functional areas:* Greater flexibility to organise OPs in accordance with the geography of development processes by, for instance, designing and managing programmes at the level of groups of towns or of river and sea basins.

- *Areas facing specific geographical or demographic problems:* Targeted provisions are required to address the problems of outermost regions, northernmost regions, island and cross-border and mountain regions, in line with Treaty objective on territorial cohesion. Urban-rural linkages and social exclusion should also be addressed.

- *Macro-regional strategies*: should be reviewed and supported by a reinforced transnational strand, although funded mainly through national and regional programmes and other sources.[118]

In line with this sentiment, many countries operate instruments for clearly defined areas of the country, albeit of a comparatively modest size. Such instruments usually target small areas at the regional or sub-regional level (see Table 4).

Countries use different approaches for defining areas that qualify for targeted support. Many use labour market indicators, for instance Slovakia, the Czech Republic, Denmark and Latvia. In **Slovakia**, a new Act on investment aid introduced in August 2011 sets differentiated intensities of aid based on unemployment rates. Similarly, the **Czech** Act on Regional Development Support targets regions suffering from high unemployment. In **Denmark**, the Renewal Fund has been in place since the start of 2010. It targets localities

[116] See Wishlade F (2011) *op. cit.*

[117] European Commission (2010) *Conclusions of the fifth report on economic, social and territorial cohesion: the future of cohesion policy,* COM(2010) 642 final, Brussels. 9 November 2011.

[118] Mendez C, Bachtler J and Wishlade F (2011) *Comparative Study on the Visions and Options for Cohesion Policy after 2013*, study on behalf of the European Parliament's Committee on Regional Development, Brussels.

with above-average unemployment or growth in unemployment and limited alternative employment opportunities. In comparison, **Portugal** uses a mixed set of indicators for its Programme for the Economic Valorisation of Endogenous Resources (PROVERE). These indicators relate to density in terms of population, business resources, human capital, relational capital and urban size.

Table 4: Regional policy instruments targeting defined areas

Country	Spatial targeting
Bulgaria	A strategy is under development for the north-western part of country, where the districts of Vidin, Vratsa and Montana have the lowest GDP in the EU. The new strategy for economic development will contain a package of interventions and proposals for tax and other alleviations. The current round of the programming process runs until November 2011, and the strategy is expected to be approved before the new budgetary year.
Denmark	Peripheral areas (*yderområder*), covering around 10 percent of the Danish population, were designated in 2006 to benefit from targeted support under national, regional and European programmes. At least 35 percent of expenditure on regional development should go into these areas.
Estonia	Spatially targeted domestic instruments include a development plan for Ida-Virumaa County in north-east Estonia, and programmes for Setomaa in the south-east, for Peipsiveere in the east and for small islands. However, the available funds in these programmes are very limited.
Ireland	The Western Development Commission (WDC) promotes the economic and social development of the Western Region (counties of Connacht, Clare and Donegal). It manages the Western Investment Fund, which provides funding for businesses, community initiatives and 'flagship' projects, and it also works with various partners in the region and nationally to develop strategic initiatives for enterprise and economic development.
Latvia	So-called 'specifically supported areas' are defined on the basis of unemployment and tax revenue indicators. The aim is to provide opportunities for development to economically weaker or disadvantaged areas and to promote equal social and economic conditions over the whole territory of the country.
Lithuania	14 'problem regions' at NUTS2-level have been selected based on social development indicators. They are supported through development programmes for each area, based on a national programme for the reduction of regional social and economic differences that ran between 2007 and 2010.
Romania	A programme for the economic and social development of the Danube Delta region was set up in 2010 by an Interministerial Council and will run until 2012. There is no explicit allocation of funding, but the ministries involved will use EU funding from various programmes to implement the programme.
Slovenia	There are three targeted domestic policy measures, partly co-financed by Structural Funds: *Soča 2013* promotes development in the Posočje region 2007–13, a special law for the Pomurje region in the east was introduced in 2009 and a programme was set up for the Pokolpje region along the Croatian border. The latter two have been introduced to respond to effects of the economic crisis and entail priority treatment for applications competing for funding from Structural Funds.
United Kingdom	The new English Regional Growth Fund (RGF) is intended to support areas that are currently dependent on the public sector to make the transition to 'sustainable private-sector-led growth and prosperity'. In the first round of RGF funding, nearly half of the 50 bids approved are located in the north of England. A further set of locations was targeted as part of the recently announced establishment of 21 Enterprise Zones in areas with comparatively low growth.

Source: Further details available in the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

EU Cohesion policy support is the most important funding source for many EU Member States, and countries have significant scope to target the resources domestically. This

operates, for instance, in **Poland**, where the multi-regional programme OP for the Development of the Eastern Regions 2007-13 receives €2.2 billion from ERDF sources, and its continuation in the next financial perspective is supported by the Polish Government. **Spain** uses the Cohesion policy framework also to allocate domestic resources. The country bases the allocation of its two main regional policy instruments on an area's Cohesion policy Objective status. This results in the Regional Investment Grant and the Inter-Territorial Compensation Fund being only available in former Objective 1 and current Convergence regions.

Some countries focus funding by allocating a share of the national Structural Funds budget to specific regions. As noted above, **Denmark** reserves funding for its peripheral areas (*yderområder*) and **Hungary** earmarks a significant share of Structural Funds support for the country's 33 structurally weakest regions. Other countries are prioritising applications from selected areas as part of their project calls in Structural Funds programmes. This is the case, for instance, in the **Czech Republic**, where the South Moravian self-governing region targets its most underdeveloped areas. Similarly, **Slovenia** gives preference to the structurally-weak Pokolpje and Pomurje regions when applications for Cohesion policy funding are considered.

Lastly, when assessing the degree to which policies are spatially differentiated, it is important to consider the role of financial equalisation mechanisms in many European countries. The transfer of money derived from fiscal sources can sometimes dwarf regional policies in financial terms. Equalisation mechanisms are especially important in federal countries such as **Austria, Germany** and **Switzerland**, where significant financial transfers take place between poorer and richer regions, both at regional levels between *Länder* or cantons and/or at local level between municipalities. These systems favour areas with structural challenges or a low tax income and hence have a significant reallocation effect in line with equity objectives.

5.3 Distinctive geographies of interventions

The evolution of distinctive 'geographies' or 'spaces' has been given additional impetus by the European debate on territorial cohesion, most recently marked by the Territorial Agenda for 2020 agreed in May 2011.[119] The Territorial Agenda aims to provide strategic orientations for territorial development, defining six thematic priorities broadly following the direction of the Fifth Cohesion Report conclusions: (i) polycentric and balanced territorial development; (ii) integrated development in cities, rural and specific areas; (iii) territorial integration in cross-border and transnational functional regions; (iv) global competitiveness of regions; (v) territorial connectivity; and (vi) ecological, landscape and cultural values of regions.

Reflecting the debate at EU level, many countries have been looking at new ways to design policies for distinctive geographies in recent years. Domestic policy approaches involve a

[119] Territorial Agenda of the European Union 2020: Towards an Inclusive, Smart and Sustainable Europe of Diverse Regions agreed at the Informal Ministerial Meeting of Ministers responsible for Spatial Planning and Territorial Development on 19th May 2011, Gödöllő, Hungary.

wide range of interventions at different spatial scales. Some countries focus predominantly on the role of national and regional centres, which is in line with proposals by the European Commission to reinforce the urban agenda as part of future Cohesion policy. At the same time, many countries are directing their efforts towards areas facing specific geographical problems. The following sections look at examples for policies that support urban agglomerations and use their potential as growth poles (Section 5.3.1), and at approaches that are dedicated to areas with special features (Section 5.3.2). Two examples for a shift of focus towards the local level are highlighted (Section 5.3.3).

5.3.1 Urban centres and functional regions

Urban centres are increasingly a target of regional policy. This is the case in **Sweden**, where more attention is being given to the needs of urban areas and specific policies are currently under development. A study on regional development in Sweden is expected to provide proposals for a renewed urban policy. Similarly, a new Cities Agenda is being developed in the **United Kingdom** (***Scotland***), where a City Strategy team is being set up within the Scottish Government. Also in **Poland**, the new Spatial Concept KPZK is going to incorporate a stronger focus on the urban dimension, and a new national urban policy will be published in 2012. There are plans to introduce a global grant and specific financial engineering instruments for cities. In **Austria** there is a growing trend to incorporate urban areas into regional policymaking. In **France**, efforts have been underway to promote urban centres outside Paris, and, in line with the 2010 Law on the Reform of Local Authorities, cities of more than 300,000 inhabitants can acquire the specific status of a 'metropolitan pole'.

However, in many countries, support to urban centres is not intended purely as urban policy, but it is seen rather as a means to use their potential as development hubs for larger areas. Although centre-periphery models and growth pole approaches have traditionally been part of the policy-mix in many countries, awareness has been growing of the 'driving force' of urban centres. The potential role of cities as a hub has been made explicit in many countries, where growth poles have been defined as part of national strategies (see Table 5).

In some countries, the role of urban centres as development hubs for the development of the whole country is emphasised by defining *urban networks*, as in **Greece** and **Poland** (see Table 5). In **the Netherlands**, the major urban areas form a 'national urban network', under policies that aim to develop knowledge and innovation clusters. Major transport axes, considered the 'backbone' of the national spatial structure, are intended to ensure good connectivity through roads, railways and waterways. **Finland** additionally defined development corridors linking urban areas, the surrounding suburban areas and rural areas in order to enlarge functional labour market areas. These corridors can extend beyond the traditional administrative and even physical borders to become part of virtual innovation networks. The Helsinki metropolitan network is particularly important, since its cooperation with other regions is expected to help economic development and competitiveness across the country.

Table 5: Growth poles as targets for regional policy

Country	Focus on urban areas and growth poles
Finland	The concept of *seutukaupunki* was introduced in 2007 and plays an important role in the national Finnish strategy for 2020. *Seutukaupunki* consist of medium-sized towns and their surrounding rural areas, which should develop their economic activities, knowledge base, services, municipal structures and intelligent transport solutions.
France	The December 2010 Law on the Reform of Local Authorities introduced the new status of 'metropolitan poles' with over 300,000 inhabitants. Around 15 such poles are currently emerging, and they are expected to remedy the lack of major urban centres outside Paris.
Greece	The creation of a polycentric system of cities across the country is planned to reduce the dominance of the capital city. The NSRF and the General Framework on Spatial Planning and Sustainable Development aim to improve economic performance and services in development poles and networks of neighbouring cities. At the regional and local level, the challenge is to move from a few dominant regional centres to several small and medium-sized centres.
Hungary	The five main urban agglomerations (with the exception of Budapest) are part of a competitiveness pole programme co-funded by Structural Funds. The programme aims to establish innovative clusters that, in the long term, would function as networking and development hubs.
Lithuania	The regional policy strategy identified seven medium-size cities as regional growth centres with economic potential and sufficient infrastructure. They should act as regional development centres and strengthen connections with the surrounding territories.
The Netherlands	While spatially focused funding under regional economic policy has ceased after the phasing-out of Peaks in the Delta, central government is now focusing on regional business clusters of national importance, i.e. urban regions and important hubs such as Schiphol Airport and the Port of Rotterdam. Policies and resources are targeted at regional developments that benefit the country as a whole.
Poland	Twelve metropolitan regions form a polycentric metropolitan structure. The network links the largest urban nodes to each other and to other European networks. This reflects the importance given to concentrated development driven by cooperation between urban nodes rather than development spreading across transport corridors or development zones.
Portugal	The urban policy agenda developed as part of NSRF and regional programmes aims at supporting different types of urban dynamics at different scales (urban neighbourhoods, networks of cities, city-regions).
Romania	There are two categories of urban growth poles in Structural Funds programmes: seven national growth poles (*poli nationali de crestere*) and 13 urban development poles (*poli de dezvoltare urbana*). Urban development poles should act as links between national growth poles and small and medium-sized towns and reduce population and labour force concentration in the major agglomerations and support the creation of territorially balanced economic development structures.
Slovakia	Innovation- and cohesion-poles of growth were identified in all regions. Concentrating financial assistance into the poles is supposed to produce positive spread effects to the wider territory. Yet, the concentration effect might be deteriorated by the high number of priority locations - approximately 30 percent of all towns and municipalities are classified as a growth pole.

Source: Further details available in the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

The above-mentioned cases are examples of an increasing focus on functional regions as a basis for integrated regional development interventions. These functional entities consist of both urban and rural areas that complement each other. Ideally, support is not concentrated exclusively on regional centres but rather targets all areas of a region.

Box 1: Functional regions in Switzerland

Functional regions are a recurring issue of debate in Switzerland, not least due to the small-scale and fragmented nature of the Swiss territorial structure and federal organisation. Hence, cooperation within functional regions continues to be a strategic focus of regional policy. Under the NRP, one-third of loan funding is earmarked as part of a move towards a 'variable geometry'.[120] This is in line with the Law on Regional Policy, which emphasises the need to overcome institutional borders. In order to implement their NRP programmes, a number of cantons have proceeded with reorganisation of the regional sub-structure (e.g. via mergers).

The significance of functional spaces is also recognised in the framework of the Spatial Concept Switzerland, which is currently open for consultation, under the heading 'action areas' (*Handlungsräume*). The document distinguishes twelve non-exclusive action areas as well as areas of cross-border cooperation.[121] In addition, a chapter on functional areas will be included in the Law on Spatial Planning.

In the main urban agglomerations (i.e. Zurich, Basel and Bern/Geneva), *Grossregionen* have gained in prominence by pooling knowledge and resources in different areas in order to improve their competitive position. Thinking is also underway regarding the interdependencies between agglomerations and their hinterland. More generally, functional economic relations are developing beyond cantonal boundaries, leading to a polycentric set-up depending on the criterion under consideration. The focus on inter-cantonal cooperation has been increasing, notably in the context of the 2008-2011 national growth policy that outlines possible forms of cooperation.

Functional areas do not necessarily follow administrative borders but are defined by internal functional dependencies between a regional centre and its surrounding area, e.g. in terms of a regional labour market. In many cases, functional regions have been established by policymakers as part of their development strategies, e.g. in the **Netherlands** (*Randstad*) or **Germany** (*Metropolregionen*), although this classification is not necessarily connected to regional policy. In **Sweden**, functional labour market regions[122] are perceived to be the appropriate level for regional development, not least because they cross administrative borders, and often include more than one municipality and a combination of rural and urban areas.

However, functional regions are not necessarily defined in a top-down way. Functional regions can also organise themselves in a bottom-up process as a result of endogenous development initiatives. Such bottom-up functional areas may be defined with some flexibility regarding administrative boundaries and are often based on traditional functional relations or cultural commonalities. The creation of endogenous development initiatives is sometimes directly encouraged by policymakers, e.g. by making collaboration of local authorities and strategic planning at the regional level a conditionality of funding.

[120] Schweizerischer Bundesrat (2007) *Botschaft zum Mehrjahresprogramm des Bundes 2008-2015 zur Umsetzung der Neuen Regionalpolitik (NRP) und dessen Finanzierung*, 28.02.2007, p.2473.

[121] Schweizerische Eidgenossenschaft *et al* (2011) *Raumkonzept Schweiz*, Entwurf für die tripartite Konsultation, 21.01.2011, p.48.

[122] There are two main definitions to the functional regions in Sweden: Nutek (the predecessor of *Tillväxtverket*), defined 72 functional labour market regions in 2005 that are used for economic analysis and forecasting; and Statistics Sweden defined 82 local labour market regions in 2006.

In **Finland**, endogenous development of the peripheral region of Kainuu has been supported via a self-governance experiment since 2003. While it has not been as successful as expected with regard to the improvement of the business environment, the delivery of basic services has been improved. Similar encouragement of bottom-up development is part of the policy-mix in other countries. While the approach of establishing regional management offices in **Austria** is primarily directed at rural and peripheral areas, policy addresses both rural and urban areas in **France**. In 1999, two types of *territories de projet* were introduced under the slogan 'one territory, one project, one contract': the *pays* (mostly rural areas of cultural identity and solidarity); and agglomeration projects. In the context of the December 2010 Law on the Reform of Local Authorities, the *préfets* at the level of the *départements* have been asked to reduce and rationalise the number of different (and often overlapping) types of cooperation projects by mid-2013. Although the legal basis of the *pays* has been abolished, many continue to act as valued regional development actors on the ground. In **Slovakia**, the Regional Development Agencies (RDAs) represent an important structure supporting endogenous regional development. They have been created to provide technical support for the implementation of Cohesion policy, and together they form the Integrated Network of Regional Development Agencies (INRDA). INRDA covers the whole country, but the number of members has recently been reduced with the expectation that their performance will increase.

5.3.2 Spaces with special features

Some countries specifically address spaces with special features with tailored measures. These spaces may require special treatment for a variety of reasons, such as peripheral location, structural weaknesses, cultural specificities or topographical disadvantage. In the **Czech Republic**, for instance, the Act on Regional Development Support defines territories of special national interest, such as former military areas, border regions, regions affected by natural disasters, regions suffering from severe environmental problems or from excessive unemployment.

In many countries, policy focuses on *peripheral areas*. In **Sweden**, for instance, there is a traditional emphasis on the sparsely-populated north and the rural areas in spite of the country's general all-region approach. This emphasis has been further reinforced following the increase in mining activities in the northern parts of the country, which have provided a significant impetus for the development of these regions. The main instrument for these areas continues to be the national Rural Development Programme and various regional aid schemes for businesses. In the **United Kingdom** (***Scotland***), a separate enterprise agency for the Highlands and Islands in the north-west of the country has existed since 1965. Highlands and Islands Enterprise (HIE) has a remit to generate sustainable economic growth throughout the region, including an objective to strengthen communities and fragile areas. This is in response to the specific problems faced by businesses and communities located in a peripheral region with sparse population, many remote areas and fragile island economies.

Although the definition of periphery varies,[123] it includes *mountainous areas* in many countries. **Switzerland** concentrates a large part of its regional policy funding on mountainous areas with the aim of ensuring the viability of small, remote settlements and communities. Also in **Austria**, the strategic spatial orientation of regional policy is on peripheral areas. *Regionalmanagements* (regional management offices) are supported by the *Länder* and the Federal Chancellery especially with the aim of encouraging endogenous development in these areas.

However, the role of peripheral or weaker regions is discussed more widely not only in **Austria**, where the ÖROK has recently published a series of reports on opportunities and threats in peripheral areas, but also in the **United Kingdom** (***Scotland***), where an internal policy paper discussed the inherent tension between regions, depending on whether they had a 'critical mass' for development. The study assessed the different factors that can boost a region's growth and may have an impact on policy in the longer term, e.g. by helping to ensure that the regional policy Assisted Areas map is better aligned to areas of need and opportunity.

Several countries target *coastal areas and islands,* for instance Denmark, Estonia, Greece, Malta and the United Kingdom. In July 2011, coastal and island communities became the focus of a policy initiative in the **United Kingdom**, with the announcement of a new Coastal Communities Fund, to run from April 2012. The Fund will be financed through the allocation of equivalent to 50 percent of the revenues from the Crown Estate's marine activities from the preceding financial year. The fund is intended to support the economic development of coastal communities supporting a wide range of projects such as developing renewable energy, improving skills or environmental safeguarding or improvement. There will be separate funding available for England, Wales, Northern Ireland, the Highlands and Islands and the rest of Scotland. Similarly, **Denmark** targets its peripheral islands by only allowing direct investment subsidies to individual firms in those areas, and **Estonia** also runs a small instrument for its islands. **Greece** is preparing a Special Framework for Spatial Planning of Coastal Zones and Islands. This framework will provide for an integrated management of these areas that involves all relevant stakeholders. **Malta**, in turn, targets the island of Gozo not only through its 'Eco-Gozo' vision, but also by earmarking 10 percent of Cohesion policy funds to the island.

A series of countries have special instruments in place to support regions experiencing severe structural change.

- In the **United Kingdom**, coalfield communities are supported with an additional £30 million (€34 million) announced in March 2011 by the UK Government for the Coalfields Regeneration Trust, an independent agency supporting economic and social regeneration of coalfield areas in England, Scotland and Wales.

- In **Lithuania**, the decommissioning of a nuclear power station in the east of the country led the government to establish the Ignalina Nuclear Power Plant Regional

[123] Davies S and Michie R (2011) *Policies for the Periphery*, EoRPA Paper 11/6, European Policies Research Centre, University of Strathclyde, Glasgow.

Development Agency in 2002. The Agency responds to the loss of one of the largest employers in Lithuania and implements social and economic projects in the region. Funding comes from a specific fund set up in 2001, which draws its resources mainly from the sale of electricity.

- In several countries, areas formerly used by the military are eligible for targeted support, e.g. in the **Czech Republic. France** and **Romania**, for instance, have dedicated 'defence restructuring zones'. France also changed its regional aid map in order to alleviate the consequences of the reform of the defence sector.

Lastly, a series of countries have policies in place for regions with special cultural and ethnic features. **Ireland** supports its Gaelic-speaking areas and **Slovakia** and **Slovenia** have instruments in place to develop marginalised Roma communities.

- **Ireland** set up a dedicated national government agency, *Údarás na Gaeltachta*, to support its predominantly Gaelic-speaking areas on the western coast, the Gaeltacht. Although much of its work is cultural in nature, the agency does have responsibility for assisting businesses in these areas and delivers national initiatives such as the Enterprise Stabilisation Fund and the Employment Subsidy Scheme. Under these two schemes, €5.76 million in funding was approved to 36 Gaeltacht companies in 2010. The agency delivers a range of programmes for several government departments and administers the Rural Social Scheme and the Community Employment Scheme, which in 2010 alone invested €13 million in the Gaeltacht economy.

- In **Slovenia,** the development of regions with ethnic minorities is among the priorities of the 'Promotion of Balanced Regional Development Act' from 1999 (amended in 2005). This does not only apply to the areas inhabited by the country's autochthonous national minorities of Italians in the west and Hungarians in the east of the country, but also to the development of Roma settlements, which are located mainly in eastern Slovenia. Similarly, **Slovakia** is specifically supporting the development of marginalised Roma communities.

5.3.3 Focus on the local level

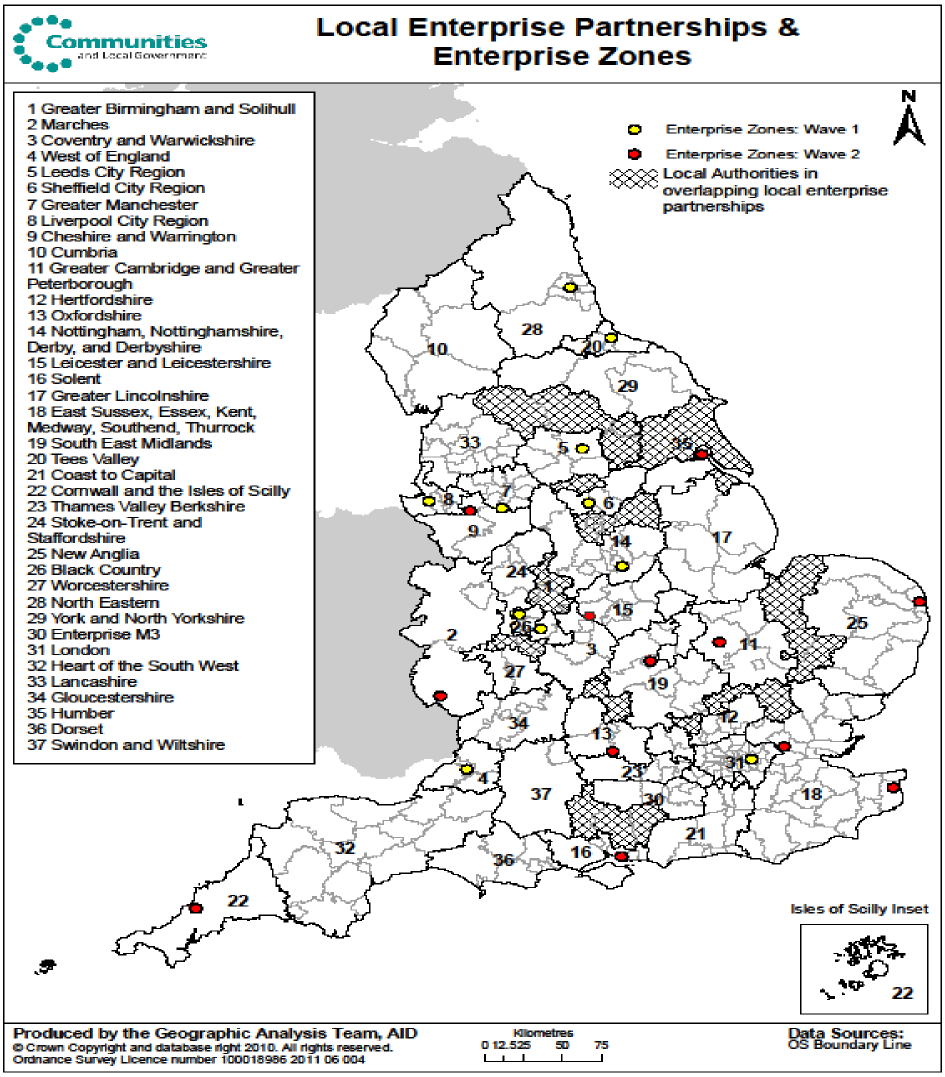
The local level has increasingly become a focus of policymakers. At European level, a recent evaluation of EU Cohesion policy support for local development[124] argued for a local development priority in Structural Funds programmes and specifically earmarked funding. In domestic regional policies, there is a shift towards the local dimension as the preferred spatial level to implement development measures in the **United Kingdom** and **Norway**.

In the **United Kingdom** ***(England)***, the sub-national implementation structure of development policies has been significantly reformed under the new UK Government. The focus of policy is now clearly at the local rather than the regional level. All parts of England

[124] ADETEF *et al* (2010) *Cohesion Policy Support for Local Development: Best Practice and Future Policy Options*, Final Report to DG Regio, Brussels.

are eligible for Local Economic Partnerships (LEPs) and, as of June 2011, most of England was covered (see Figure 6). There are still some gaps in spatial coverage (e.g. the southern English counties of Wiltshire, Bournemouth, Buckinghamshire), largely due to the fact that some local authorities have yet to decide which LEP to join. The government anticipates that the development of functional economic areas will be facilitated by the establishment of LEPs. Existing city-region structures (based around cooperation between local authorities covering connected city areas) have successfully applied for LEP status (e.g. Leeds, Sheffield, Liverpool, Oxford). Some local authorities are trying to cover more linear territories in their LEPs (e.g. in the South East, there are LEPs attempting to follow transport corridors that link Kent, Essex and East Sussex).

Figure 6: Local Enterprise Partnerships and Enterprise Zones in England



Source: Department of Communities and Local Government website: http://www.communities.gov.uk/documents/localgovernment/pdf/1968608.pdf

The local level has gained further in importance also in **Norway**. The 2009 White Paper emphasised the importance of local capacity-building if regional development measures were to be implemented effectively. In response, a new programme for local community

development has been introduced. Over the next five years, it aims to improve competencies at the local level to allow key challenges (such as those related to population decline) to be addressed. This new programme is known as the LUK programme (Local Development in Municipalities). LUK has been allocated NOK 30 million (€3.86 million) for 2011. Another programme (*Bolyst*) similarly aims to improve the situation at the local level, in this case by stimulating people or places to create more attractive locations. The objective is to mobilise people to create a more active civil society in their locality. The programme operates via a competitive tendering system. *Bolyst* has been allocated NOK 47 million (€6.05 million) for 2011. Also with a view to increasing the attractiveness of local areas in the periphery, new investment assistance has been introduced for local grocery shops. These have long been supported in Norway through the MERKUR programme, which has helped to subsidise the running costs of such stores with a view to making them viable in the periphery. Investment support is also available, aiding investment in equipment and buildings and thus allowing the range of services provided through such stores to be extended. Although support remains relatively low-key (NOK15 million - €1.93 million - in 2011), the shops are viewed as important in driving forward the provision of community services in peripheral locations.

5.4 International cooperation

Since 1989 the EU addresses the fact that regional issues do not necessarily respect national borders through its European Territorial Cooperation (ETC) Objective. All three ETC strands encourage collaboration, whether they support cross-border (strand A), transnational (strand B) or interregional (strand C) cooperation. Collaboration across borders is both reacting to existing links across national borders and fostering the establishment of new collaboration areas. Cooperation has recently been boosted by the introduction of two major frameworks: European Groupings for Territorial Cooperation (EGTC); and macro-regional strategies. The EGTC was created in 2006 as a specific management instrument to facilitate cooperation. It allows for cooperation structures with their own legal personality and prevents discrimination that may arise from different legal arrangements over the border. So far, 16 EGTCs haven been set up across the EU, and a further 21 are currently in preparation.[125] Another major development relates to macro-regional strategies, which have been created for the Baltic Sea Region (2009) and for the Danube Region (2011). These have been established in order to respond to problems that need to be addressed through better coordination and joint action.

5.4.1 Territorial cooperation

While collaboration across borders is today widely co-financed by the EU's European Territorial Cooperation Objective, territorial cooperation has a longer history. Early, non-EU-driven examples for cross-border collaboration include the EUREGIO initiative launched in 1958 between the Netherlands and Germany and the *Regio Basiliensis/Oberrheinkonferenz* between Switzerland, France and Germany from 1963. The

[125] Data from July 2011. See European Commission (2011) *Report from the Commission to the European Parliament and the Council. The application of the Regulation (EC) No 1082/2006 on a European Grouping of Territorial Cooperation (EGTC)*, COM(2011) 462 final. Available at: http://portal.cor.europa.eu/egtc/en-US/news/Pages/ECReportonEGTC.aspx

International Conference of Lake Constance (*Internationale Bodensee Konferenz*, IBK) was created already in 1972 (see Box 2) and in the Alpine-Adriatic Working Community, regions from Austria, Croatia, Hungary, Italy and Slovenia have been working together since 1978, encompassing a variety of issues such as transport, energy and the environment.

Box 2: International Conference of Lake Constance (IBK)

The International Conference of Lake Constance (*Internationale Bodensee Konferenz*, IBK) was created already in 1972. Its goal is to foster regional cohesion across borders. The figure below shows the regions involved in the IBK in Austria (*Land* Vorarlberg), Germany (several districts in the *Länder* Baden-Württemberg and Bavaria), Switzerland (cantons Appenzell-Innerrhoden, Appenzell-Ausserrhoden, St. Gallen, Schaffhausen, Thurgau and Zurich) and Liechtenstein. The IBK has seven thematic commissions: education, science and research, culture, environment, transport, business, health and social aspects, and public relations. Although the cooperation area involves four different countries, the IBK has the advantage of a common language and similar cultural traditions.

Map of countries and regions of the Internationale Bodensee Konferenz (IBK)

Source: http://www.rp.baden-wuerttemberg.de/servlet/PB/show/1193323/rpf-sgz-karteibk.jpg

Territorial cooperation is often highlighted as one of the main areas of added value in EU Cohesion policy. Yet, the priority that is given to cross-border activities depends to some

extent on the location of a country and historic links with its neighbours. The following cases highlight the importance of cross-border cooperation in some parts of Europe.

- Cross-border cooperation is traditionally important in the Nordic context, where **Denmark, Finland, Norway** and **Sweden** have been working together in the Nordic Council since 1952. Under the support of the Nordic Council of Ministers, funding is currently allocated to 13 different cross-border committees. One of the oldest is the North Calotte Council (formerly North Calotte Committee), which was established in 1967 between Finland, Norway and Sweden. Analyses on the benefits of cross-border cooperation are currently being carried out in Sweden with newly developed statistics on cross-border regions (the Nordic Statistical Database, StatNord).[126]

- The border region between **Ireland** and ***Northern Ireland*** not only benefits from INTERREG support, but also from the PEACE III programme. Through PEACE III ('EU Programme for Peace and Reconciliation in Northern Ireland and the Border Region of Ireland') at total of €333 million is invested in community projects to promote reconciliation and shared activities across the border.

Cross-border cooperation is given a high priority where agglomerations and economic activity are concentrated at the border. Cooperation is understood as a development opportunity, for instance in **Austria** and **Switzerland**. For Austrian policymakers, the CENTROPE collaboration (see Box 3) is one the most important initiatives of this kind. In Switzerland, the development of cross-border innovation systems is a goal of the New Regional Policy and is expected to become more important in future.[127]

In other cases, border regions are economically rather weak, and development effort in these areas is a necessity rather than an opportunity. **Slovenia** plans to spend more than €14 million for investment promotion in border areas in 2011 and 2012 alone, and **Lithuania** designated the majority of its areas benefitting from special treatment along its borders.

In **France**, a study by a parliamentary committee in June 2010 made proposals on how to enhance economic performance in border areas. The report outlined four priority actions: develop a toolbox for policymakers to enhance economic development; improve service provision, if possible at a cross-border level; implement spatial planning measures in a coordinated way on both sides of the border; and improve governance mechanisms to support related measures.

[126] Nordic statistical database StatNord: https://www.h2.scb.se/grs/Default.aspx

[127] Staatssekretariat für Wirtschaft SECO (2011b) *Zwischenbewertung Neue Regionalpolitik (NRP) des SECO, Standortbestimmung 2010 und Folgerungen für die Umsetzungsperiode 2012-15*, pp.18-20 and 28-29.

Box 3: CENTROPE

The CENTROPE Euroregion[128] was founded in 2003 and has since been a flagship project of Austria's cross-border cooperation efforts. The Central European Region CENTROPE brings together the Austrian *Länder* Burgenland, Lower Austria and Vienna, and partner regions in the Czech Republic, Hungary and Slovakia. CENTROPE '…defines itself as a hub at the heart of Europe'[129] and, according to policy-makers, the region can already be seen as a brand.

CENTROPE cooperation area

Source: http://centrope.it/images/centrope_map.gif

CENTROPE is not a programme itself with dedicated resources but is financed by the projects partners in the four countries plus additional Interreg funding from the various programmes in the region. Currently, the CENTROPE region is involved in two projects co-financed by the Interreg IVB Central Europe programme and coordinated by an Austrian lead partner. Centrope Capacity[130] has a total budget of €4.5 million and aims at sustainable cooperation for a polycentric territorial development in the region. Twelve partners from four EU Member States are involved; the lead partner is the City of Vienna. Centrope-tt[131] has a budget of €1.9 million and involves 15 partners, amongst which the Lower Austrian business agency ecoplus is the lead partner. The project aims at developing tools for the stimulation of cross-border technology transfer between enterprises and universities.

[128] See http://www.centrope.com/en

[129] See http://www.centrope.com/en/centrope-region/centrope-at-a-glance

[130] See http://www.central2013.eu/nc/central-projects/implementing-a-project/approved-projects/funded-projects/?tx_fundedprojects_pi1[project]=31

[131] See http://www.centrope-tt.info/

5.4.2 European macro-regions

Many countries are working together at the level of European macro-regions, with the Baltic Sea Region Strategy and the Danube Strategy being the first two to be put in place.[132]

- The **Baltic Sea Region Strategy,** launched in 2009 is widely perceived as an innovative concept. Ten countries are working together to promote balanced development of the region and develop an action plan with c. 80 flagship projects. However, some criticism relates to the measurability of the added value generated, the lack of engagement and commitment in some participating countries, and some open questions regarding the funding necessary to implement the strategy.

- The **Danube Region Strategy** (EUSDR) was endorsed by the EU Member States on 13 April 2011. It was officially launched on 24 June 2011 with a vote of the European Council. The EUSDR consists of eleven priority areas for which two countries each have been assigned as coordinators. There are no additional funds associated with the EUSDR; instead, the 14 participating countries are responsible for implementing the strategy. The European Commission assists the process through overall planning, monitoring, evaluation, guidance and not least by aligning EU funding.

Macro-regional strategies have the potential to be useful frameworks for territorial cooperation on a functional basis. The main positive features and achievements are the inclusive consultation process, the new policy principles, the flexible approach to membership, policy experimentalism and territorially coordinated policy interventions.[133]

Further macro-regional strategies are currently under discussion, especially for the Alpine, the North Sea and the Adriatic macro-region. For instance, some regions from Austria, Germany, Italy and Switzerland are advocating an Alpine Space Strategy. Additional strategies are expected to complement the existing Baltic Sea and Danube Strategies. Yet, these initiatives are still at an early stage and the view of some countries is that the impact of the existing strategies needs to be assessed before new macro-regional strategies are set up. In addition to the above EU-driven initiatives, there are other macro-regional initiatives in Europe. The Nordic countries, for instance, are actively engaging with Russia in the Barents Region cooperation.

5.5 Summary

Across Europe, a new dynamic is evident in the way that policymakers are thinking about the geography of intervention in regional development. Although national approaches vary considerably, a common feature is that policies have been targeting all regions in a given country. With the aim of improving their territorial capital, economically strong as well as

[132] For more information see http://ec.europa.eu/regional_policy/cooperation/danube/index_en.htm (Danube Region Strategy) and http://ec.europa.eu/regional_policy/cooperate/baltic/index_en.cfm (Baltic Sea Region Strategy)

[133] Mirwaldt K, McMaster I and Bachtler J (2010) *The Concept of Macro-Regions: Practice and Prospects*, "The power of the Baltic Sea macro-region" Baltic Sea Region Programme Conference, 30 November – 1 December 2010, Jyväskylän Paviljonki, Finland.

disadvantaged areas are the subject of strategies tailored to individual regional needs. In spite of this all-region approach, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. The importance of spatially targeted interventions is also emphasised by the European Commission's Fifth Cohesion Report.

Many countries have been looking at new ways to design policy interventions based on distinctive geographies in recent years. This trend has been given impetus by the European debate on territorial cohesion, most recently marked by the Territorial Agenda for 2020 agreed in May 2011. Some countries focus predominantly on the role of national and regional centres, which is in line with proposals by the European Commission to reinforce the urban agenda as part of future Cohesion policy. Although centre-periphery models and growth pole approaches have traditionally been part of the policy-mix in many countries, awareness has been growing of the 'driving force' of urban centres as development hubs.

Some countries specifically address spaces with special features through tailored measures. Spaces requiring special treatment include areas characterised by peripheral location, structural weaknesses, cultural specificities or topographical disadvantage. In other countries, the local level has increasingly become a focus of policymakers as the preferred implementation level for policies.

Lastly, international territorial cooperation has recently been boosted at EU level, mainly by the introduction of two frameworks: European Groupings for Territorial Cooperation (EGTC) and macro-regional strategies. While there are numerous early examples of territorial cooperation independent of EU support, collaboration across borders is today widely co-financed by the EU's European Territorial Cooperation Objective. Lately, macro-regional strategies have been introduced, which have the potential to be useful frameworks for territorial cooperation on a functional basis.

Table 6: Developments in the spatial orientation of regional policy, 2010-11

Country	Main developments in the spatial orientation of regional policy
Austria	There is a focus on peripheral areas, a category which includes two different kinds of regions with structural weaknesses: mountainous regions in the centre and south-west of the country; and, border regions in the north and south-east. Growing trend to incorporate urban areas.
Belgium	In Vlaanderen, policy is not spatially targeted and all measures for entrepreneurship and economic support are implemented across the whole territory. In Wallonie, support is concentrated on disadvantaged target areas, in particular, rural and urban 'franc zones' (*zones franches*) eligible for special aid, such as fiscal incentives and bonus instruments.
Bulgaria	A strategy is under development for the north-western part of country, where the districts of Vidin, Vratsa and Montana have the lowest GDP in the EU. The new strategy for economic development will contain a package of interventions and proposals for tax and other alleviations. The current round of the programming process runs until November 2011, and the strategy is expected to be approved before the new budgetary year.
Cyprus	Due to Cyprus' small size and population, little distinction is made between policy targeted on designated development areas and the policy measures for areas with particular development characteristics, such as the rural areas and the depressed urban areas.
Czech Republic	The Act on Regional Development Support defines territories of special national interest, such as former military areas, border regions, regions affected by natural disasters, regions suffering from severe environmental problems or from excessive unemployment. The South Moravian self-governing region targets underdeveloped areas by prioritising applications from selected areas as part of their project calls in Structural Funds programmes.
Denmark	The spatial orientation of policy is both geographically comprehensive and selective. Denmark has been moving towards an all-regions approach with the launch of regional growth fora in all five new regions in 2007. At the same time, peripheral regions (*yderområder*) benefit from targeted support from various programmes.
Estonia	Spatially targeted domestic instruments include a development plan for Ida-Virumaa County in north-east Estonia, and programmes for Setomaa in the south-east, for Peipsiveere in the east and for small islands. However, the available funds in these programmes are very limited. The country also runs a small instrument for its islands.
Finland	Policy focus remains on strengthening competitiveness across the country, but policy instruments are also available for regions which have weaker development potential. Finland also introduced a regional city concept (*seutukaupunki*) in 2007, which play an important role in the national Finnish strategy for 2020. In this strategy, regions are operational entities in the context of development networks and corridors.
France	In spite of an 'all-region' approach, the role of major cities has been emphasised. The December 2010 Law on the Reform of Local Authorities introduced the new status of 'metropolitan poles' with over 300,000 inhabitants. Around 15 such poles are currently emerging, and they are expected to remedy the lack of major urban centres outside Paris.
Germany	The GRW (Joint Task for the Improvement of Regional Economic Structure) focuses on structurally weaker areas throughout Germany, with higher levels of expenditure and higher aid ceilings in the new *Länder*. Further significant support is provided to the new *Länder* via the components of the Solidarity Pact, including support for business investment and innovation.
Greece	The creation of a polycentric system of cities across the country is planned to reduce the dominance of the capital city. Economic performance and services should be improved in development poles and networks of neighbouring cities. Greece is also preparing a Special Framework for Spatial Planning of Coastal Zones and Islands.
Hungary	The five main urban agglomerations (with the exception of Budapest) are part of a competitiveness pole programme co-funded by Structural Funds. The programme aims to establish innovative clusters that, in the long term, would function as networking and development hubs. In order to support the country's 33 structurally weakest regions, a significant share of Structural Funds is earmarked to these areas.
Ireland	The regional map has been extended to allow some form of regional aid in parts of almost all regions. At the same time, the Western Development Commission (WDC) promotes the economic and social development of the Western Region (counties of Connacht, Clare and Donegal), and the national government agency *Údarás na Gaeltachta* supports Ireland's predominantly Gaelic-speaking areas on the western coast, the Gaeltacht.
Italy	The strategic focus is on the Mezzogiorno. Notwithstanding the reprogramming of the FAS (Fund for Underutilised Areas), the commitment to ring-fence 85 percent of this resource for the Mezzogiorno regions has been maintained. Also the new National Plan for the South has restated that the emphasis of regional policy is in the Mezzogiorno.

Latvia	'Specifically supported areas' are defined on the basis of unemployment and tax revenue indicators. The aim is to provide opportunities for development to economically weaker or disadvantaged areas and to equal social and economic conditions over the whole country.
Lithuania	The regional policy strategy identified 7 medium-size cities as regional growth centres. 14 'problem regions' are supported through development programmes. Most of these areas are located on borders. A Regional Development Agency has been set up for the Ignalina region in order to respond to challenges arising from the closure of the local nuclear power station.
Luxembourg	Regional aid limited to narrowly-defined designated areas, where 16 percent of the country's population live.
Malta	The island of Gozo is targeted through Malta's 'Eco-Gozo' vision and by earmarking 10 percent of Cohesion policy funds to the island.
Netherlands	Spatially focused funding under regional economic policy has ceased after the phasing-out of Peaks in the Delta. Support concentrates on regional business clusters of national importance (urban regions, hubs). Urban areas form a 'national urban network', and major transport axes are considered the 'backbone' of the national spatial structure.
Norway	Regional policy distinguishes between an all-region policy and instruments focused on peripheral and sparsely-populated regions. The local level has gained further in importance with the publication of the 2009 White Paper, which emphasised the importance of local capacity-building. A new programme for local community development has been introduced, aimed at the improvement of competencies at the local level.
Poland	Stronger focus on the urban dimension in the new Spatial Concept KPZK, and a new national urban policy expected in 2012. Twelve metropolitan regions form a polycentric metropolitan structure, linking the largest urban nodes to each other and to other European networks. This reflects the importance given to cooperation between urban nodes rather than development spreading across transport corridors or development zones.
Portugal	The urban policy agenda developed as part of NSRF and regional programmes aims at supporting different types of urban dynamics at different scales (urban neighbourhoods, networks of cities, city-regions). The Programme for the Economic Valorisation of Endogenous Resources (PROVERE) places particular attention on the needs of low-density areas and promotes competitiveness by developing the economic value of unique territorial assets.
Romania	Two kinds of urban growth poles defined: seven national growth poles (*poli nationali de crestere*) and 13 urban development poles (*poli de dezvoltare urbana*) which should reduce population and labour force concentration in major agglomerations and support creation of territorially balanced economic development structure. Special programme for the development of the Danube Delta region from 2010 draws on EU funding from various programmes.
Slovakia	Approximately 30 percent of all towns were identified as growth poles. A new Act on investment aid introduced in August 2011 sets differentiated intensities of aid based on unemployment rates. In order to support endogenous regional development, Regional Development Agencies (RDAs) have been created in the whole country. The development of Roma communities is also supported through dedicated instruments.
Slovenia	Special measures provide development support in the Posočje, Pomurje and Pokolpje regions. These regions are also given preference when applications for Cohesion policy funding are considered. Additionally, development in regions with ethnic minorities is among the priorities of the 'Promotion of Balanced Regional Development Act'.
Spain	Funding of the domestic Regional Investment Grant and the Inter-Territorial Compensation Fund (ICF) is allocated in the basis of Cohesion policy Objective status. ICF provides funds to regional governments for financing public investment expenditure.
Sweden	Policy aims to give all parts of the country opportunities to develop their own potential; interventions need to be tailored to specific regional conditions. The traditional emphasis on the sparsely-populated north and the rural areas has been further reinforced following the increase in mining activities in the northern parts of the country. More attention is also being given to urban areas and specific policies are currently under development.
Switzerland	Launch of the NRP in 2008 was accompanied by major revision of spatial coverage of regional policy. Targeted areas are mountainous and rural regions and areas involved in European territorial cooperation. Funding for 2012-2015 will increase slightly, but the territorial focus of the NRP tax allowances has been increased. The significance of functional spaces is recognised in the framework of the NRP and Spatial Concept Switzerland, currently open for consultation.
United Kingdom	New policy focus in England is at the local rather than the regional level. Local Economic Partnerships have been created and the new English Regional Growth Fund (RGF) supports e transition to 'sustainable private-sector-led growth and prosperity'. Further spatial targeting through new Coastal Communities Fund from April 2012 and additional support to coalfield communities. New economic strategies in Scotland and Wales.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

6. SUPPORTING ECONOMIC DEVELOPMENT THROUGH THE CRISIS: RECENT DEVELOPMENTS IN REGIONAL POLICY INSTRUMENTS

6.1 Introduction

Regional policy instruments have changed considerably over time. Over recent decades, policy support has moved from a rather narrow focus on regional investment aid and infrastructure support to a broader approach, encompassing support for the regional business environment. Regional programming has also become more prominent, in part reflecting the influence of EU Cohesion policy, but also in line with efforts to support endogenous development. More recently, there has been increased concern about the availability of finance for businesses due to shortages of credit during the financial and economic crises.

This chapter reviews recent changes with respect to the instruments of regional policy, including regional aid, support for the business environment and regional programmes. In addition, it examines the growing interest in, and use of, non-grant financial instruments in regional policy.

6.2 Regional aid

Virtually all European countries have one or more regional aid schemes, governed in terms of coverage and aid intensity by EU State aid rules. Reviewing the differences in regional aid instruments across countries, several features stand out.[134] Depending on spatial coverage and differentials in award rates, the instruments are more or less focused on problem regions (see Table 10 and Table 11). In the case of EU12 Member States, discrimination between regions is limited, since many regional aid schemes cover the entire country. Policy instruments in these countries also have a strong sectoral orientation, and lagging regions have been mainly supported through welfare policies, although this is now changing (see Chapter 3) and there are increasing examples of aid being channelled to areas most in need (see Table 7).

Over the long term, the use of regional incentives has declined, driven in part by EU State aid rules. However, it is notable that the economic crisis has seen resurgent use of State aid – if only on a temporary basis – to provide financial support for businesses. Nevertheless, budgets are under pressure as governments seek to cut (or limit the growth of) public expenditure (see also Table 10).

[134] See also EPRC and EUROREG (2010) *The Objective of Economic and Social Cohesion in the Economic Policies of Member States*, Final Report to the European Commission (DG Regio), Part I – Main Report, pp. 48.

Table 7: Targeting regional aid in the EU12

Type of targeting	Country
Support packages for lagging areas	Bulgaria: The northwest of the country will benefit from a five-year exemption from corporation tax, funding for basic infrastructure for business sites, and specific tax benefits for production activities. Slovenia: Investment promotion, employment incentives, tax relief, and priority treatment for programmes and projects competing for funds from national programmes are available in the Pomurje region and the Pokolpje local partnership (area bordering Croatia).
Preferential treatment of lagging areas	Bulgaria: Firms locating in municipalities with unemployment over 35 percent higher than the national average can retain corporation tax; savings must be invested in tangible and intangible production assets. Malta: Tax incentives on the island of Gozo are higher than on the main island (e.g. higher tax credit for micro-enterprises). Slovakia: Recent efforts to attract investment to the least-developed regions: tax incentives, subsidy for transfer of movable assets, for acquiring long-term physical and non-physical assets and contribution to job creation; new categories of intensity of aid to primarily support investments in less developed regions.
Implementation provisions of mainstream instruments	Hungary: Projects enhancing territorial cohesion can receive higher scores during appraisal processes.

Source: Further details available in the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

6.2.1 Effects of the crisis on regional aid schemes

The Temporary Framework for State aid measures, introduced in 2008, is being phased out from the end of 2010.[135] Member States have made extensive use of the different options, aiming to unblock bank lending and to facilitate aid schemes that encourage continued investment.[136] However, the crisis continues to affect the operation of regional aid instruments. Stakeholder reaction has varied: in **Germany**, for example, interest continued to be strong despite the co-financing requirement at *Land* and local authority levels, and despite the availability of other crisis instruments; by contrast, some regions in **France** have been facing difficulties in mobilising co-finance from local authorities in a context of tight budgets (e.g. Lorraine).

At the same time, the crisis is having a longer legacy with respect to the role and use of aid instruments in a number of countries. Some have been stepping up support (**Germany**, **Slovenia**) or trying to enhance take-up (**France**, **Portugal**, **Romania**).

- **Germany**: A special programme was introduced as part of the federal government's fiscal stimulus package, including additional federal resources for regional aid in 2009-11.

135 European Commission (2011) *Communication on the temporary Union framework for State aid measures to support access to finance in the current financial and economic crisis*, Official Journal C6, 11 January 2011.

136 See Wishlade F (2010) *To roll forward or to roll back? Regional Aid Control 2014+*, EoRPA Paper 10/4, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow, October 2010, pp. 6-10.

- **Slovenia**: In the aftermath of the crisis, support is being provided for designated areas, notably those located along the border with Croatia through priority treatment (e.g. investment promotion, employment incentives, tax relief and priority treatment in national tenders).

- **France**: The regional aid grant was used in a more 'defensive' way, focusing on extension projects to safeguard existing jobs without leading to job creation. Also, support for the transfer of firm ownership was used more frequently.

- **Portugal**: Efforts are being made to reduce implementation delays via a transitional measure, allowing project promoters to make adjustments to planned investments and completion deadlines in addition to wider modifications (see Box 4).

Box 4: Portugal - modifications of regional aid schemes in response to the crisis

The following measures have been taken to accelerate spending, simplify procedures and increase strategic concentration:

- *Elimination of the requirement for proof of establishment licences/permits* in the RTD and SME Incentive schemes, while maintaining the requirement for the Innovation Schemes in industry and tourism projects.

- *Simplification and acceleration of reimbursement methods*, eliminating the limit on the number of payment claims, introducing a new way for companies to claim advances against invoices, and dispensing with the requirement for an accountant certification in certain cases.

- *Review of application forms and payment requests*, restricting the information required to what is strictly needed for assessing the project and monitoring its implementation.

- *Eliminating the need for prior approval of eligible expenditure*, allowing the inclusion of expenditure from the date of application, rather than waiting for notification of prior approval.

- *Incentive awards to services with marketable high value-added to prioritise the number of jobs created*, adjusting the intensity of incentive awards to reflect the labour costs of hiring high-skilled workers for two years.

- *Strategic concentration*, prioritising support for tradable activities, other activities linked to 'Collective Efficiency Strategies' or geographically in areas with very low business density.

- **Romania**: A series of measures was adopted to enhance the absorption of EU funds, including projects that involve State aids, i.e. projects can be pre-financed with up to 35 percent of the grant value.

At the same time, policy-makers in **Spain** have decided to restrict access conditions, while in **Greece**, a wider range of measures has been taken with a view to consolidate public finances.

- **Spain**: Eligibility conditions and award criteria were modified to optimise the efficient use of resources. More demanding requirements for certain activities were introduced in terms of quality criteria and technological improvements, and selection criteria were adapted in order to concentrate support.

- **Greece**: Based on the New Investment Incentives Law, incentives will be primarily provided through tax exemptions rather than grants in order to cut budget deficits. In addition, the law has introduced a number of other measures (see Box 5).

Box 5: Greece – the 2011 New Investment Incentives Law

New obligations for beneficiaries and providers of aid:

- binding schedules, electronic submission, investment monitoring, and new Investor Service Offices that assist investors;

- specified and fixed application deadlines (April and October);

- new evaluation process via the National Register of Evaluators and Auditors;

- focus on sustainable investment projects that are environmentally friendly, promote innovation, regional cohesion, youth entrepreneurship, and create jobs;

- commitment that the entire application and evaluation process shall not exceed 6 months.

Most drastically, some countries have decided to abolish regional aid, reflecting a broader change in government priorities (**Netherlands**, **United Kingdom** (***Wales***)).

- **Netherlands**: Following a period when the regional aid budget had been cut and the centralised Investment premium (IPR) was moved away from the spatially-oriented budget, the IPR was finally abolished at the start of 2011.

- **United Kingdom** (***Wales***): Government resources are being refocused in the aftermath of the recession. In this context, the Single Investment Fund (SIF) is being abolished and reallocated to key infrastructure projects. Some flexibility to offer funding is being retained for 'regionally important growth businesses' and strategic projects, but most of the finance will gradually move to a repayable model.

6.2.2 The influence of broader policy developments on regional aid

Among other country-specific developments affecting regional aid, the 2010-11 period saw the implementation of some substantial changes to regional aid in the **United Kingdom** (***England***); in **Switzerland**, the importance of regional aid has been further reduced in line with the principles of the New Regional Policy; and in **Germany**, change has been incremental with phasing-out of the Investment Allowance (*Investitionszulage*) now underway. In contrast, the importance of regional aid in **Norway** was confirmed in the 2009 White Paper on regional policy.

- **United Kingdom** (***England***): The Grant for Business Investment (GBI) was abolished in February 2011 as part of a wider reduction of support in the form of grants and subsidies to companies following the 2010 elections. As a consequence, companies in English regions seeking smaller amounts of investment aid are left with limited options. Given the decision of the Scottish Government to maintain its regional aid

scheme, there are some concerns that deprived parts of England may be placed at a disadvantage.

- **Switzerland**: Under the New Regional Policy, the role of area-based support in the form of tax allowances has decreased. It is limited to the economically weakest areas of the country, and coverage has been reduced further at the start of 2011 after a transition phase with fewer projects being approved.

- **Germany**: The phasing-out of the Investment Allowance scheme, decided in 2008 due to its automatic character and deadweight effects, started with a first reduction of aid rates in 2010, and the scheme is expected to end in 2014. However, the role of aid instruments operated more generally is not being questioned.

- **Norway**: The importance of the social security concession to regional development was explicitly recognised in the 2009 White Paper, and the need to retain support to sparsely-populated parts of the country in future was highlighted.

In some of the EU12 countries, shifts can be observed with respect to the mix and targeting of instruments, partly due to the influence of EU Cohesion policy. In **Lithuania,** the implementation of EU Cohesion policy has increased the scope for the Lithuanian authorities to move away from passive, tax-based incentives to more active aid forms like subsidies or soft loans. In **Slovakia**, there has been a shift in the structure of State aid in recent years, away from support to heavy industries (susceptible to unexpected shocks), making increasing use of regional aid and other forms of support for human resources and business development. New categories of aid intensity have been introduced to promote investments in more sophisticated sectors and in less-developed regions.

Lastly, aid instruments have been evaluated in **Finland** and **Sweden**.

- **Finland**: The evaluation of a sub-scheme of business development aid, providing support for sole proprietors in hiring their first employee, showed that the scheme encouraged hiring and enhanced permanent employment, but noted the need to combine it with support available for hiring the unemployed.[137]

- **Sweden**: Changes to aid schemes may be forthcoming following the analysis of regional aid (2000-09 period), which detected a positive effect on the regional economies (e.g. in terms of employment levels).[138] At the same time, the aid did not prevent out-migration, and it is therefore recommended to enhance investment in infrastructure, competence development and service provision.

[137] Aaltonen S, Heinonen J and Luomala K (2011) *Yksinyrittäjätuen vaikuttavuuden ja toimivuuden arviointi*, Publications of the Ministry of Employment and the Economy, 18/2011, April 2011.

[138] Tillväxtverket (2010) *Företagsstöd bra för ekonomin men stoppar inte utflyttning*, News item on website, 28 December 2010.

6.3 Support for the business environment

As noted above, the importance of instruments for the business environment has been increasing. This is most notable in countries that decided to move away from the provision of regional aid as described above (e.g. **United Kingdom** (***England, Wales***)).

In some countries, there is no explicit spatial differentiation of business environment measures (**Denmark**), while others operate instruments that are specifically targeted at lagging areas (**Germany**). In the EU12 (e.g. **Poland**), there has been a notable growth in business support institutions in recent years, although there are concerns over fragmentation and duplication. Also, there is a tendency for beneficiaries to be located where networks of business-support institutions are strongest (i.e. in close proximity to major urban centres). Consequently, specific efforts are being made in some countries to ensure wider and more inclusive business support to be made available in all types of regions, i.e. beyond major urban centres (e.g. in **Finland**).

During 2010-11, some business environment instruments have been adapted in response to the crisis and its consequences. There are also broader policy influences shaping these measures, for example relating to support for enterprise zones and growth poles or efforts to streamline business support more generally, as well as expanded support for broadband infrastructure.

6.3.1 Crisis-driven changes to business support measures

Following the crisis, business support instruments have been made more accessible in several countries, with increased funding in some cases in order to stimulate investment. In the case of **Austria**, award conditions for the main business support instrument (ERP Fund) were eased by reducing interest rates and increasing aid ceilings. As a result, the number of loans granted to SMEs in the first quarter of 2010 tripled compared to the same period in 2009. With regard to **Germany**, funding for the ‘Central Innovation Programme for SMEs’, which provides higher award rates in the new *Länder* and Berlin, was increased and future commitments assured. In **Switzerland**, it was decided that guarantee and insurance schemes introduced in response to the crisis in order to facilitate access to export funding and reduce its cost will be extended until the end of 2015.

A new instrument was launched in **France** to attract French businesses from abroad to relocate to France. Support under the Reindustrialisation Aid (*Aide à la réindustrialisation*, ARI) is available to firms involved in industrial production with a maximum workforce of 5,000. The scheme is available throughout France, but has higher levels of support in assisted areas. Other countries have focused on increasing firm liquidity and improving access to business finance more generally, often with a specific focus on SMEs (see Section 6.5). An interesting example is the **Czech Republic**, where, in reaction to the economic crisis, a support programme for economically weak and structurally disadvantaged regions was re-opened in 2010. Interventions support infrastructure development to enhance the business environment, reduce unemployment and promote tourism. Interestingly, and in spite of low levels of funding, indirect economic outcomes of the programme are evident: in peripheral regions, domestic regional policy support is perceived as a good ‘psychological stimulus’ to maintain entrepreneurial capacities and to prevent out-migration.

There are also countries where public expenditure constraints led to cuts being made to business support measures. In **Ireland**, where a wide range of investment in business-related infrastructure is available, there has been a slowing-down of such investment under the current austerity budget. In the **Netherlands**, a number of targeted business support measures have been withdrawn following the cuts to spatial economic policy. This concerns the 'strong regions' policy, promoting infrastructure development in selected locations, as well as the 'top projects' initiative, targeted at restructuring industrial estates of national importance.

6.3.2 Support provided to enterprise zones and cluster initiatives

Business support can be focused in different ways. Having moved away from regional aid and regional development programmes (including support provided by regional development agencies), recent changes in the targeting of support can be found in the **United Kingdom**: preferential treatment will be provided for companies locating in selected Enterprise Zones/Areas in England, Scotland and Wales, and innovation is being promoted via new Technology and Innovation Centres (see Box 6).

Box 6: New Enterprise Zones and Technology & Innovation Centres in the UK

In **England,** the government announced the establishment of 21 Enterprise Zones in March 2011 (see Figure 6). They are selected partly based on local preferences and partly through a competitive bidding process. The focus is on cities and those areas that are perceived to have missed out on economic growth in the last ten years. Benefits include a 100 percent business rate discount with business rates growth being retained and shared by associated local authorities. There will be additional support with developing planning approaches and rolling out superfast broadband. It should be noted that the re-introduction of Enterprise Zones (a model first used in the UK in the 1980s) has been criticised as the previous generation was found to stimulate short-term investment and support development based on displacement rather than new growth.[139] The actual capital investment associated with the establishment of the zones is also limited, and much of the focus for this is still on the Greater South East. In **Scotland**, the updated Economic Strategy published in September 2011 announced plans to create four Enterprise Areas, including sites with a particular focus on low-carbon manufacturing opportunities. In **Wales**, the Welsh Assembly Government has also announced plans to introduce an initial five new Enterprise Zones, organised on a sectoral basis, with £10 million funding over five years.

The UK Government is also in the process of launching a network of Technology and Innovation Centres (TICs). Based on plans of the previous administration to create a string of research and enterprise centres similar to the German network of 59 Fraunhofer institutes, there are plans to establish 7-9 TICs across the country. In terms of governance, an advisory oversight committee is being created by the Technology Strategy Board (TSB), which will oversee the national network of technology and innovation centres and report to the Technology Strategy Board's own governing board. An autonomous, business-led management board for each centre will oversee the programmes of activity and provide guidance on all aspects of its work. The role the TICs will play in territorial development is still unclear. There is an assumption that at least some of the support previously delivered by the regional development agencies will be channelled through the TSB. The Local Enterprise Partnerships (LEPs) will have a role, but this is yet to be defined in detail. If funding is spread around regions according to the current and evolving industrial distribution of technological competence or capacity, sufficient flexibility is required to enable a quick and decisive exit when technologies or centres become less crucial.

[139] Cox E (2011) *Zoned-out: Why we need to look beyond micro-initiatives to boost the northern economy*, IPPR, 6 April 2011. http://www.ippr.org/articles/56/765/zoned-out-why-we-need-to-look-beyond-micro-initiatives-to-boost-the-northern-economy

Cluster initiatives, although not explicitly pursuing regional development objectives, have been an integral part of regional development policies in EU15 countries for some time (e.g. **Finland**, **France**, **Germany**, **Ireland**, **Netherlands**, **Norway**, **Sweden**). They are also starting to be promoted in the southern, central and eastern European countries (e.g. **Greece**, **Hungary, Slovakia, Portugal**) as well as in **Norway**. Recent developments in existing cluster initiatives have taken place in **Finland** and **Sweden** based on evaluation.

- **Finland**: Following a mid-term evaluation, the Centres of Expertise Programme is being refocused.[140] Among other things, its role and objectives in relation to innovation policy need to be clarified, concept development beyond traditional approaches is encouraged, monitoring indicators and governance will be developed and demand- and user-oriented innovation activities are promoted. There are also plans to extend targeting to innovation networks from the regional Cohesion and Competitiveness Programme (KOKO - see Box 7 below).

- **Sweden**: A decision has been made to start a new eight-year cluster programme, which is set to be developed in October 2011 based on the mid-term evaluation results from the past programme, as well as ongoing activities.[141]

While new support for different types of cluster initiatives has been launched recently in **Greece**, **Ireland** and **Slovakia**, and similar moves can be observed in **Slovenia** (see Table 8), authorities in the **Netherlands** have decided to reorganise their cluster policy in its current form, providing support through enterprise policy rather than regional development policy.

Table 8: Examples of recently launched cluster initiatives

Country	Recent cluster initiatives
Greece	Under the 2011 Investment Incentives Law, a broader range of support (grants, leasing subsidy, soft loans) is available for partnership and networking in the framework of clusters (at least ten enterprises in the Region of Attica and the Thessaloniki Prefecture and at least five enterprises in other prefectures).
Ireland	Progress has been made with the development of Competence Centres, which provide a framework for firms and research organisations to collaborate and undertake R&D. By the end of 2010, eight centres located in different parts of the country had been agreed around specific technologies with two more in the process of being established.
Slovakia	'Innovation' and 'Cohesion' poles of growth have been identified in all regions in order to produce positive spread effects across the territory. There are concerns over insufficient concentration and a lack of integrated interventions in the target areas.
Slovenia	Since 2004, there has been a shift towards more innovation-oriented regional policy, i.e. networks of regional incubators, technology parks, and business zones, and investment in regional centres of higher education.

Source: Further details available in the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[140] Pelkonen A, Konttinen J, Oksanen J, Valovirta V, Boekholt P and Leväsluoto J (2010) 'Osaamisklusterit alueiden voimien yhdistäjänä, osaamiskeskusohjelman (2007-2013) väliarvointi', Publication of the Ministry of Employment and the Economy, *Innovations*, 44/2010, June.

[141] Tillväxtverket, 'Halvtidsutvärdering, Klusterprogrammet 2006-2010', October 2009.

A reform of government intervention following the 2010 elections has led to the flagship *Peaks in the Delta* initiative in the **Netherlands** being discontinued. Nevertheless, the primary spatial foci of the policy will continue to be targets of central government support under the new enterprise policy via the focus on regional business clusters of national importance. At the same time, support to regional development agencies has been discontinued.

6.3.3 *Other developments in the field of business environment support*

Broader policy changes have also affected support for the business environment in some countries. As noted above, business support in the **United Kingdom** (***England***) has been undergoing major reform. As part of this, a Regional Growth Fund has been introduced (£1.4 billion for 2011-14) with the objective of stimulating private sector investment. It provides support for projects that offer significant potential for long-term economic growth and the creation of additional sustainable private sector jobs. The fund operates through competitive bidding rounds, which are open to private sector companies and public/private partnerships. Proposals from the public sector alone are not eligible for support, and there is a minimum bid threshold of £1 million. In addition, a national insurance exemption was introduced for the first ten employees taken on by small businesses located in areas with the greatest dependence on public sector jobs (although uptake has been slow). In **Spain**, the new Plan for Comprehensive Industrial Policy 2020 involves a number of actions with the potential to impact on the business environment. These include tax incentives for businesses and entrepreneurs, financial support for firms taking on researchers, measures to protect intellectual property, funding and advice for SMEs, and support with internationalisation.

Regarding more targeted support, a range of business support instruments exists in **Germany**, specifically for lagging areas (e.g. Joint Task support for local infrastructure projects, training and business consultancy). The main change recently introduced was the extension of GRW support for broadband infrastructure to include 'high performance broadband connections and next-generation networks' in areas where current speeds are less than 25MB (upstream and/or downstream). In **France**, the exemption scheme in place in Rural Renewal Zones (*zones de revitalisation rurale*, ZRR) was extended by three years following evaluation.[142] Tax breaks were extended to cases of ownership transfer, in order to take account of problems related to ageing. At the same time, the scheme was simplified, i.e. while the duration of support was reduced from fourteen to eight years, full instead of partial tax exemption now applies throughout the whole period; in addition, support was limited to micro-firms.

A common trend across European countries relates to efforts to streamline or simplify business support and its management. Examples can be found in **Greece**, **France**, **United Kingdom** ***(England)*** and **Italy**.

- **Greece**: In the aftermath of the crisis, new legislation was introduced to reduce red tape regarding the approval and licensing of major investment projects and to

[142] Daniel C (2009) *Evaluation des mesures en faveur des zones de revitalisation rurale (ZRR)*.

decrease the time for business start-ups. A unique Business Registry was created, and one-stop services have been put in place. For the majority of companies, all registration procedures should now be accomplished in one procedure (instead of 15), in one day (instead of 19) and at a single contact point (instead of 8).

- **France**: The crisis has led to a greater focus on simplification identified as a priority in the context of the General Assembly of Industries. Targeted measures were announced, notably relating to the designation of contacts for SMEs in the regions, a one-stop shop for business creation, and the obligation to carry out impact assessments on regulatory proposals with an impact on businesses.

- **United Kingdom** ***(England):*** The management of business support instruments has been streamlined and centralised since the change of government in 2010. The Business Link regional programme, which was run by regional development agencies, has ended. SMEs will be able to access government-funded business advice via a website and a call centre. There are also plans to introduce a new mentoring scheme operated by volunteer mentors.

- **Italy:** Operational procedures for 'development contracts' have been approved as part of a reorganisation of incentives, expected to simplify and rationalise the available aids. The contracts are not operational yet, pending further specification of procedures.

6.4 Regional programmes and strategy development

Programmes and strategies constitute important frameworks for regional policymaking and implementation, and their role has been enhanced, notably in the context of EU Cohesion policy programming. Depending on the context, programmes operate at regional or local levels. The degree of targeting also varies, and, while most are implemented across the country, specific programmes have sometimes been developed for lagging areas or areas with potential. With notable exceptions, regional programming approaches have not changed greatly in 2010-11.

6.4.1 Recent change in regional programmes and strategy development

Regional programming is associated with EU Cohesion policy to varying degrees: in some countries (**Portugal**, most **EU12** countries), programming activities are mostly related to EU Cohesion policy whereas in others, separate domestic programming approaches exist (**Finland**, **France**, **Hungary**, **Italy**, **Poland**, **Slovakia**, **Spain**, **Sweden**). In these latter cases, domestic programmes are more or less aligned in terms of their timeframe (aligned in **France** and partly in **Spain**) and thematic coverage (in many cases domestic programmes are found to be broader). There are also differences in the strategic character of domestic programmes, and some are mostly used as instruments for organising national-regional cooperation under sectoral policies (**France**, **Spain**). In contrast to these negotiated funding vehicles, the situation in **Germany** is characterised by economic development strategies designed and implemented independently by the *Länder*. Outside the EU, programming approaches are also being used in **Switzerland**.

As discussed in previous EoRPA research,[143] the consequences of the economic downturn have not had a significant effect on the content or progress of regional development programmes (**France**, **Spain**, **Sweden**, **Switzerland**). However, there are examples where programming was reformed or adapted in line with domestic policy and institutional developments. In the **United Kingdom (*England*),** changes have been substantial, while in other countries (**France**, **Denmark**, **Sweden**, **Finland**) change has been more incremental.

- **United Kingdom (*England*)**: After the elections, regional strategies in the field of economic and spatial development were stripped down. The rest of the local planning system was retained under the December 2010 Localism Bill, including the continuation of local development plans.

- **France**: The mid-term review of the State-region contracts (CPER) was launched in October 2010. In the absence of major changes to priorities, the review was mainly used to replace dormant projects, to readjust operations, or to transfer funding, sometimes in order to adapt the contracts with new policy initiatives.

- **Denmark**: A review of existing strategies has been instituted following political changeover, but major changes are not expected.

- **Sweden**: There has been a gradual shift of importance from the operational Regional Growth Programmes to the more strategic Regional Development Programmes.

- **Finland**: In the context of regional administrative reform, the role of the regional strategic programmes has been reinforced as instruments for steering the State's regional development measures, and the new regional Cohesion and Competitiveness Programme (KOKO) has been launched (see Box 7).

In **Poland**, work on the overall systemic management of development policy is underway with attempts to create a strategic, all-encompassing programme approach. It is based on national and regional documents in the fields of socio-economic, regional and spatial development. In addition, nine 'horizontal' development strategies are planned, including the theme of regional development, to be implemented in line with the National Development Plan (2011-2020). They will be translated into operational programmes and must include a clear financial framework to inform budget decisions. The strategies are independent from, but aligned with, EU Cohesion policy programmes and, from a regional policy perspective, may help clarify the scope and impact of different development activities in a given territory. The aim is to finalise the strategies by 2011, but so far progress has been uneven. **Switzerland** looks back at the first years of implementing the New Regional Policy, which is entirely based on a strategic, multi-level programming approach (see Box 8).

[143] Bachtler J *et al* (2010) *op. cit.*

Box 7: Finland – The new regional strategic programmes for 2011-2014

The development of the new programmes for 2011-2014 has been particularly significant, given that the new government has recently started its term of office and as such the programmes have had the opportunity to contribute to the content of the new government's regional policy (however, there has not been a significant thematic change from previous programme priorities). They have been given the scope to influence the strategies and target agreements of the newly introduced centres for business, traffic and environment (ELY centres) and regional administration agencies (AVI agencies). Their impact on target agreements will come into play for the first time in the autumn 2011, following the formulation of the government's programme and the subsequent adjustment of the strategic documents for the State's regional authorities (these have been drafted in the summer of 2011, but will be adjusted according to the new government's programme).

At the start of 2010, the new regional cohesion and competitiveness programme (KOKO) was introduced, based on a merger of several programmes in order to simplify the regional development programme system and enhance its effectiveness. It supports local strategy development and coordination across the country particularly in economic and innovation policies. The programme places particular emphasis on the identification of regional strengths.

Box 8: Switzerland – first experiences with the new programming approach

In 2008, previously existing policy instruments were replaced by the New Regional Policy (NRP) in order to provide a clearer and more effective approach to regional policy. The NRP is implemented as a joint task, following a two-stage approach: support conditions are outlined in broad terms in regulatory and framework documents that are subsequently specified via programme agreements concluded between the federal and the cantonal level. In the context of the multi-level system in place for the NRP, the Federal Council submits a multi-annual programme to Parliament in line with the strategic orientations set out in the Law on Regional Policy. The first such programme was developed for the 2008-15 period, defining the scope for cantonal implementation programmes.

The first generation of cantonal implementation programmes was elaborated for the 2008-11 period around a 'Territorial Innovation Programme of the Canton'. The programmes broadly reflect the thematic division set out by the federal programme, focusing on tourism as well as trade and industry. Funding is allocated via global grants with the requirement that cantons contribute at least 50 percent to the overall programme envelope. The use of non-earmarked funding envelopes is a crucial element, allowing regional policy to operate outside the fields of traditional infrastructure and basic services support. It also reflects the fundamental shift from a project-based approach to a focus on improving the management of funding allocations at a more strategic level.

From July 2010, a mid-term review of the NRP was carried out with the objective of feeding into the 2012-15 generation of cantonal programmes. The federal assessment is positive overall, and it found that a paradigm shift has indeed taken place. Nevertheless, more time is required to develop a well-functioning policy, notably with respect to its content and the division of roles.

Lastly, there are two cases of strategy development, involving special targeting of disadvantaged areas. One relates to bottom-up initiatives (**Czech Republic**) while the other has been initiated centrally (**Portugal**).

- **Czech Republic**: Some self-governing regional authorities have started focusing on the most lagging areas, mainly located close to administrative borders. The South Moravian region, for example, initiated a strategy to combat adverse geographical and socio-economic conditions in delineated micro-regions lacking job opportunities and suffering from depopulation (e.g. via preferential treatment of applicants from these micro-regions in the context of business support measures).

- **Portugal**: The Programme for the Economic Enhancement of Endogenous Resources (PROVERE) was launched to promote competitiveness in low-density areas through integrated development plans based on partnerships of regional and local actors. Plans and projects have been approved from mid-2010.

6.4.2 Territorial and thematic regional development strategies

Some countries have been operating longstanding support programmes for areas facing particular development challenges (e.g. **France**, **Norway**).

- **France**: A multi-annual infrastructure investment programme for Corsica was set up in 2002 in order to help the island overcome its handicaps related to its geography and to enhance infrastructure and service provision. In the context of the 2009 economic recovery plan, funding has been stepped up. In 2010, the programme was slightly revised to focus more on water and waste management rather than road and port infrastructure.

- **Norway**: A 2009 strategy document identified seven priorities for the 'High North' region over the next 10-15 years. Apart from regional policy, there are implications for a range of fields. More so than in the past, the strategy places considerable emphasis on business development, both on land and at sea.

There are three national examples where strategies are increasing a thematic focus on the theme of sustainable development. In **Belgium**, new strategies have been launched in both ***Vlaanderen*** (Pact 2020, New Industrial Policy) and ***Wallonie*** (Marshall Plan 2.Green), which increase the commitment to sustainable development. In **Malta**, a novel initiative has been proposed based on the *Eco Gozo': A better Gozo* (2010-12) document promoting the island as an eco-region. It covers a wide range of activity fields, promoting sustainable jobs, a better quality of life, the natural and cultural environment, social care, and the island's identity. In the context of the current revision of the regional Frameworks for Spatial Planning in **Greece**, new Regional Plans will be developed to facilitate the organisation of economic activities in an integrated and sustainable way. The new regional plans must put emphasis on: addressing the problems of climate change and natural disasters; adapting strategic orientations to the new Law for Renewable Energy Sources and the forthcoming Law for Biodiversity; marine planning; territorial cohesion; and the thematic and spatial specification of strategic orientations. In addition, a Special Framework for Spatial Planning of Coastal Zones and Islands is being prepared that applies an eco-system approach, involving integrated management and inclusive governance.

A recent trend concerns the development of regional innovation strategies (**France**, **Ireland**, **Sweden**). This is in line with broader EU initiatives aimed at enhancing innovation activities, and a growing focus on regional capacities and specialisation. However, the process of setting up these strategies and related initiatives can be challenging.

- **Sweden**: More focus has been placed on innovation, and a support platform for regional innovation systems was launched in 2010, involving The Swedish Agency for Innovation Systems (VINNOVA) and the Agency for Economic and Regional Growth

(*Tillväxtverket*). A recent government report outlines the main issues, relating to the conversion, profiling and management of innovation.[144]

- **France**: When negotiating the 2007-13 Operational Programmes, the European Commission suggested the drafting of Regional Innovation Strategies. A 2010 assessment underlined the necessity to follow up on strategic commitments, to set up appropriate governance structures and to ensure coherence with other regional and national policies. Private sector involvement should also be enhanced.

- **Ireland**: In the absence of regional programmes other than for Structural Funds, a set of 'Regional Competitiveness Agendas' was published in 2010. The studies, which identify how each region could build on its potential, involved a process of collaboration between actors at all levels from a wide variety of associated fields. They build on the National Spatial Strategy, as well as other national strategies for enterprise, innovation and skills.

In **Bulgaria**, the need to include an innovation component in regional policy has also been recognised. In the absence of substantial progress, apart from some EU-funded activities with limited impact, it is hoped that the new National Innovation Strategy, which is to be finalised by the end of 2011, will lead to an improvement.

6.5 Non-grant financial instruments

6.5.1 Background

Non-grant financial instruments promoting novel ways of investment in innovative fields, notably in SMEs, have received increased attention over recent years. Usually conceived as vehicles to lever and re-use funding available across the country, they have entered the regional policy debate notably in the context of EU Cohesion policy. They are frequently referred to as 'financial engineering' instruments or 'new' financial instruments, despite the fact that in some countries they have operated for quite some time. The term generally refers to non-grant financial instruments such as: loans (where the capital is repaid and the terms may or may not be more advantageous than commercial ones); equity (where a holding or share is taken in a firm); or guarantees (where capital is wholly or partially secured in the event of a default).

The importance currently attached to such schemes can be partly explained by budget pressures at all levels, and by the general move away from aid in the form of grants as outlined above. However, there has so far not been much attention given to the geography of business finance in regional policy research, and it has been noted that it 'is often treated as a silent partner in regional economic development'.[145] At the same time, more

[144] Tillväxtverket (2011) *Tillväxtens guldägg, innovation och förnyelse i det regionala tillväxtarbetet*, Rapport 0083, March 2011.

[145] Pollard J (2003) Small firm finance and economic geography, *Journal of Economic Geography*, 3/4, pp. 429-452, p. 442.

appropriate methodologies are needed to assess the need for and measure the impact of public sector intervention, notably in the early stage venture capital market.[146]

Across Europe, the use of non-grant financial instruments is a well-established policy option in several countries, and considerable experience can, for example, be found in **Denmark**, **Finland**, **Germany, Portugal, Spain** and the **United Kingdom**. However, in other countries, such instruments are not normally part of the policy mix; this applies particularly to small countries, such as **Cyprus** and **Luxembourg**. In another group of countries, measures are still in the process of being set up (e.g. **Lithuania**). Whereas EU Cohesion policy provides the impetus for operating the instruments in many cases, some have made the decision to rely mainly on domestic initiatives at the present time (**Austria**, **Finland**).

The reasons for setting up non-grant financial instruments often relate to a general demand for finance from private firms (and notably SMEs), as well as to the need to involve banks to a greater extent in the financing of development interventions. In this process, EU Cohesion policy has been an important driver in promoting these instruments, notably via the Jeremie and Jessica initiatives. In addition, the crisis has aggravated concerns about the availability of finance to firms (e.g. **France**). It has also revealed the crucial role of business support in the form of interest rate rebates or guarantee schemes (**Poland**, **Portugal**). As a consequence, measures were stepped up, e.g. in **Belgium *(Vlaanderen)*** via a capital increase of the main provider of business finance. **Norway** witnessed a significant increase in loan provision in 2009, reflecting the impact of the economic crisis, with support provided by Innovation Norway helping to fill the gap created by reduced bank-lending. In **Luxemburg**, a temporary guarantee scheme was put in place in the framework of the recovery plan; it was recently extended until the end of 2011.

In the field of regional policy, the importance of non-grant financial instruments has received more attention in recent years due to funding constraints (**France**, **Germany**). Another factor is that policies are increasingly conceived in terms of investment and indirect support rather than grant aid (**Belgium** (***Vlaanderen***), **Italy**, **Sweden**, **Switzerland**, **United Kingdom**). Also, in **Slovenia**, non-grant financial instruments are gaining in importance at the national and regional levels. Despite this increasing interest, they are often still seen as a supplement to other forms of intervention. It is interesting to note concerns over the geographical spread of the provision of business finance in some countries (**France**, **Germany**, **Poland**).

- **France**: A 2009 report to the Parliament found the distribution of support provided in the field of SME finance across the country to be uneven with insufficient coverage of fragile zones and those facing economic restructuring.[147]

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[146] Mason C (2008) *Public Policy Support for the Informal Venture Capital Market in Europe: A Critical Review*, Working Paper 08-07, Hunter Centre for Entrepreneurship, University of Strathclyde.

[147] Forissier N (2009) *Rapport d'information déposé en application de l'article 145 du Règlement par la Commission de finances, de l'économie générale et du plan relatif au financement en fonds propres des PME*, Enregistré à la Présidence de l'Assemblée nationale le 24 mars 2009, p.32.

- **Germany**: A federal study on venture capital and private equity in the new *Länder* in 2009 found that, although many private funds and investors are active in the eastern *Länder*, investment volumes are well below levels in the old *Länder* (in absolute terms and relative to GDP).[148]

- **Poland**: The regional distribution of loan funds is uneven, with only three funds in the north-east and one in the east of the country (Lublin). The provision of these instruments tends to reflect the demand for finance rather than addressing a market deficiency.

More generally, 'gaps' in the supply of venture capital at the seed, start-up and early stages of firm development have been noted as particularly problematic in less-developed regions lacking an indigenous venture capital industry.[149]

6.5.2 Non-grant financial instruments used in regional policy

Central level

In the majority of cases, the orientation of non-grant financial instruments is sectoral (i.e. support for business and industrial development, SME support) rather than regional (**Norway**, **Poland**, **Portugal, Sweden**, **United Kingdom**). Recent, centrally-steered initiatives include the launch of an Innovation Fund in the **Netherlands**, a Business Angel Co-investment Fund in **England** targeted at areas most affected by public spending cuts, an Innovation Financing and Risk Sharing Support System set up under the national OP Competitiveness Factors in **Portugal**, a National Start-up Fund in **France**, three new programmes (loans, combined micro-loans and guarantees) in **Hungary**, and a National Fund for Entrepreneurship and Development in **Greece.**

There are some countries, where more targeted initiatives are in place or where assisted areas receive preferential treatment (see Table 9).

In the context of EU Cohesion policy, Jeremie and Jessica initiatives are being run or are in the process of being set up in a number of countries. It is interesting to note that in **Spain**, the territorial distribution of national Jeremie will favour Convergence regions with 70 percent of the envelope. In some Convergence countries, funds set up under EU Cohesion policy are targeted at municipalities rather than at businesses, notably in order to help absorption of EU funding. In **Bulgaria**, the financial instrument FLAG was created as a revolving fund, offering loans to municipalities at a low interest rate. In the **Czech Republic**, a Regional Development Fund operates based on a PHARE initiative. It provides low-interest loans with flexible repayment conditions to municipalities for basic infrastructure support.

[148] Steden P and Berewinkel J (2009) *Bedeutung von Wagnis- und Beteiligungskapital für die Standortentwicklung in Ostdeutschland*, Report by Prognos to the Bundesministerium für Verkehr, Bau und Stadtentwicklung, Berlin.

[149] Mason C and Harrison R (1995) Closing the Regional Equity Capital Gap: The Role of Informal Venture Capital, *Small Business Economics*, 7/1995, pp. 153-172, p. 157.

Table 9: Examples of centrally-run targeted non-grant financial instruments

Country	Non-grant financial instruments
Austria	The European Recovery Programme (ERP) Fund set up in 1962 administers a range of support schemes for the business sector (e.g. low-interest loans complemented by guarantees). One of the main loan instruments, the ERP *Regionalprogramm*, provides low-interest loans to enterprises in assisted areas.
Denmark	The 2010 government White Paper announced the set-up of a particular 'West Denmark section' of the national Growth Fund (*Vækstfonden*) to provide better access to funding for firms located away from the financial centre of Copenhagen.
Finland	Although the non-grant financial instruments provided by the Finnvera Group are available across the country, they have a certain regional policy focus with, for instance, higher award rates available in assisted areas. Funding for these in 2010 amounted to almost 50 percent of domestic operations, which is even higher in per capita terms. In addition, projects located in areas facing sudden structural change are eligible.
France	No tailored loans are on offer in assisted areas, but rates of mainstream instruments are more generous in these zones (gross grant equivalent of 35 percent instead of 20 percent). In 2008, the National Territorial Renewal Fund (FNRT) was launched to provide non-guaranteed loans in employment zones affected by industrial restructuring.
Ireland	The Western Development Commission promotes the economic and social development of the Western Region, including the management and operation of the Western Investment Fund. The fund provides funding for businesses, community initiatives and 'flagship' projects and invests directly in sustainable projects. It also provides seed and venture capital or loans to projects and businesses.
Italy	Under the Plan for the South, there are plans to create a Mezzogiorno Bank in order to develop medium- and long-term credit to support firm creation and expansion, to act as a guarantee bank, and to play an important role in the management of aid schemes.
Lithuania	Some of the credit measures funded in the context of EU Cohesion policy apply different interest rates depending on the location of investment. SMEs located outside the main cities or within a regional growth centre are eligible to lower interest rates.

Source: Further details available in the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

Regional level

Depending on the institutional context, the sub-national level has a more or less important role in the provision of business finance. In **Germany**, regional State (*Land)* banks play a crucial part, running a range of venture and equity capital investments (which are in some cases co-funded under EU Cohesion policy), including the operation of seed funds and venture capital funds. In **Austria**, some *Länder* set up domestic funds as one element of the policy mix. In **Belgium** (***Vlaanderen***), the Participation Company Vlaanderen NV has a key position in the Flemish market of business financing, while in Wallonie, special SME support is available through the Walloon Society of Financing and Guarantees for SMEs.

In the **United Kingdom**, ***Scotland*** presents an interesting case. It operates a number of tailor-made schemes to develop the market for early stage risk capital, most notably the Scottish Co-Investment Fund (SCF) which combines ERDF with public capital to lever private sector investment capital, investment skills & expertise to support growth-potential SMEs.

Box 9: Early-stage risk capital schemes in Scotland[150]

Launched in 2003 and following a rigorous market consultation process, the Scottish Co-Investment Fund (SCF) represents a novel and innovative approach; SCF seeks to address long-standing weaknesses in the supply of early stage risk capital by encouraging and supporting supply-side development through a private sector partner-led co-investment approach. SCF operates by co-investing alongside pre-validated private sector co-investment partners. The SCF Partners identify investment opportunities, undertake the necessary due diligence, negotiate the terms and conditions of the investment transaction and decide to whether to access SCF capital, through an agreed SCF Partner capital allocation, for investments on a *pari passu* basis, and subject to the SCF rules. SCF seeks to avoid common criticisms of policy interventions in the early stage risk capital market, specifically, in relation to investment selection and decision-making (private sector partner-led) and introducing market distortions (*pari passu* approach).

Since the introduction of SCF in 2003, two further early stage risk capital public sector funds have been established, the Scottish Venture Fund (SVF) and the Scottish Seed Fund (SSF), with both funds adopting a similar private sector co-investment approach. From the initial six private sector co-investment partners, there are now over seventy private sector co-investment partners, ranging from individual investors, business angel syndicates, family offices, corporate venture organisations and venture capital funds, providing annually, typically, around £120m of risk capital for approximately 150 transactions across Scotland.

In December 2010, the Scottish Investment Bank (SIB) was created as a new policy initiative, to support the development and growth of the early stage risk capital market, subsuming SSF, SCF and SVF and operating as a division of Scottish Enterprise. SIB will typically invest between £20m-£30m annually alongside its private sector co-investment partners. More recently, the Scottish Loan Fund (SLF) was introduced by SIB in response to weaknesses in the provision of debt finance to export-oriented SMEs. SIB funds operate on a fully commercial basis and are designed to maximize net economic impact measured by Gross Value Add (GVA), SIB funds (SCF, SVF and SLF) and supported by £100m of ERDF capital.

In other cases, the involvement of the sub-national level is less prominent or still evolving. In **Finland**, regional and local actors are associated to some extent in the delivery of non-grant financial instruments (e.g. via regional funds). This is being encouraged, but there are capacity issues due to a concentration of expertise at Finnvera. Efforts have also been made to increase the share of private capital in the regional funds, and discussions are underway concerning the promotion of private sector involvement more generally (e.g. via tax incentives). In the case of **Norway**, county authorities are frequently shareholders in regional venture capital funds. In the **United Kingdom (*England*)**, nine Enterprise Capital Funds provide equity finance to SMEs by using government funding alongside private sector investment to establish funds operating within identified ‘equity gaps’. They replace previous products such as the Regional Venture Capital Funds. In **France**, awareness has been growing regarding the importance of new financial instruments, and also less dynamic regions have started setting up funds, partly due to the driving force of EU Cohesion policy.

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[150] SIB Funds: The *Scottish Seed Fund* provides equity investment from £20,000 to £100,000 early stage, growth orientated companies which meet specific criteria relating to their size and commercial viability. The *Scottish Co-Investment Fund,* part-funded by the ERDF invests between £100,000 and £1m alongside the private sector in company finance deals of up to £2m. The *Scottish Venture Fund,* part-funded by ERDF, invests between £500,000 and £2m alongside private sector partners, in company finance deals of between £2m and £10m. The *Scottish Loan Fund* provides loans between £250,000 and £5 million to established SMEs with growth or export potential. The *Scottish Investment Bank* has provided £55 million of cornerstone funding to the SLF, again part-financed by ERDF. In addition £39.2 million of private sector investment has been generated, giving a cumulative fund value of £94.2 million. For further details, see: http://www.scottish-enterprise.com/sib

This includes risk capital funds that used to be difficult to establish in a context of strict State aid rules. It is interesting to note that funds set up with ERDF support need to be managed by regional authorities instead of the regional State services who cannot participate. Similarly, in **Poland**, spurred by economic growth, the establishment of stronger regional business support institutions and access to Cohesion policy funding, regions are initiating venture capital and business angel funds. Also in the **Czech Republic**, some of the self-governing regions run their own loan funds (e.g. a micro-loan fund in the South Moravian Region that is in the process of being transformed into a seed fund for venture capital).

Co-financing approaches between the federal level and the *Länder*/cantons are in place in **Germany** and **Switzerland**. In **Germany**, the *Länder* can use resources of the Joint Task (GRW) to fund loan guarantees. The costs are shared equally between the federal and individual *Land* governments, with the federal government taking on guarantees for up to €10 million in each individual case. The ceiling on the total value of loan guarantees is set at €1228 million; the federal government is responsible for 50 percent of the total, which is divided across the *Länder* (with higher ceilings in the new *Länder*). In addition, the ERP Regional Programme (*ERP-Regionalförderprogramm*) provides low-interest loans to SMEs in designated areas. The aid ceiling is 85 percent of project costs in the new *Länder* and Berlin, and up to 50 percent in the old *Länder*. The New Regional Policy in **Switzerland** places significant emphasis on non-grant instruments, which amount to around half of the overall envelope. Cantons are obliged to contribute 50 percent to individual projects, and they must assume 50 percent of any incurred loss (of their own and the federal contribution), encouraging them to take precautions to avoid such losses. Project promoters are required to contribute a sizeable share of funding (e.g. at least 20 percent) to the project depending on their financial resources.

6.5.3 Experiences with using non-grant financial instruments

Experiences with the use of non-grant financial instruments vary greatly. The following advantages can be identified.

- They provide a significant leverage effect with their ability to attract private sector involvement and are better value for money because funds can be recycled over time.
- They are more efficient than grants in administrative terms, particularly given that they enable more regular and longer-term monitoring, and the requirement to pay back a loan increases the commitment of funding recipients.
- They facilitate the acquisition of higher-risk loans and mobilise public funding to support SMEs, which are not considered to be a profitable target for the private sector.
- Specific to EU Cohesion policy, the recirculation of European funding is being appreciated and the ability to continue operating after the end of the programming period. In addition, they allow for the rapid absorption of funds.

At the same time, a number of concerns have been highlighted.

- The utility of these instruments in structurally weaker regions has been questioned, and there are general concerns over the spread of investments.
- There is a possibility that these instruments could compete with private-sector lenders.
- There are difficulties in using public funds to support inherently risky projects (e.g. innovative start-up firms).
- The management of the schemes is complex and requires skilled and experienced staff, particularly for schemes involving equity investments; these capacities are often not in place at the regional level.
- There are cases of fragmentation due to a multiplicity of small and medium-sized loan funds and lack of sufficient revolving money limiting their ability to lend. Also, there are issues of critical mass and absorption capacity, notably in smaller regions.
- In the context of EU Cohesion policy, the legal framework is so far largely oriented towards grant-based instruments, and questions have been raised over rules relating to financial control and monitoring. It is also unclear whether domestic authorities can continue to operate funds in the future while withdrawing their original co-financing, and whether interest and other yields must remain within the fund or can be used for other purposes. Other uncertainties concern the duration of investments and State aid requirements.

In **Sweden**, a recent evaluation has taken stock of the experiences made with ERDF-funded risk capital funds. The first ERDF-funded risk capital funds were set up in Sweden in 2005. A key reason behind their introduction was the observation by the European Commission in 2002 that Sweden was one of the few countries that continued to award only direct aids under its Structural Funds programmes. As a result, three pilot partnership funds, which were inspired by the Scottish Co-investment Fund, were launched in 2005. From 2009, a total of 12 regional co-investment funds have been implemented within the eight regional Structural Funds programmes. The pilot funds (My SamInvest, Partners Invest in Central Sweden, and Region Invest Gotland) were evaluated in 2011.[151] (see Box 10).

Work on assessing the usefulness of non-grant financial instruments is also underway in **France**. In response to the increasing interest in new financial instruments, DATAR has formed a working group with the *Caisse des Dépôts* group in spring 2011. In order to identify issues in setting up and running these instruments, a survey was conducted among regional State services. Apart from analysing the needs of managing authorities, this also feeds into thinking about the advantages and disadvantages of using financial instruments (e.g. compared to grants and regarding their scope to support small businesses and projects

[151] Tillväxtverket (2011) *Utvärdering pilotsatsning på regionala investeringsfonder*, April 2011.

without immediate return). At the same time, it provides an input for the negotiations on the future regulatory framework.

Box 10: Sweden – experiences with the first ERDF-funded risk capital funds

The evaluation of the first ERDF-funded risk capital funds in Sweden concluded that the overall objectives for the funds had been met based on the following findings:

- The funds stimulated the flow of capital to the regions and increased the interest in investing in SMEs through the opportunity for private investors to double their capital.

- The knowledge of financing options was enhanced, reflected in the number of external actors that chose to invest in the regions, and based on knowledge exchange.

- The model used by the funds was successful, as they responded to real needs and were widely appreciated by the actors involved.

Regional knowledge, geographical proximity and local support were important success factors, particularly because investments were often made in small companies and in early stages when it was difficult to assess their future. Some of the key lessons learned from the three funds included the need for early planning with respect to financing after the active period of investment and in terms of exit opportunities, as well as ensuring that there is a variety of private co-investment partners.

6.6 Summary

The main message emerging from this review of regional policy instruments is that the recent period has seen a continued shift away from regional aid towards broader business support measures and wider use of development programmes in some countries. At the same time, there has been increased interest in the use of non-grant financial instruments to improve access for finance across countries and, to a more limited extent, in lagging areas.

There has been a noticeable decline in the use of regional aid, with some countries relying solely on general business support measures. In **Denmark**, this has been the case for two decades, whereas other countries (**Netherlands**, **United Kingdom**) have been moving in this direction over time, recently phasing out regional aid schemes and prioritising general business support measures. Aid schemes are still affected by the crisis, and recent change relates to relaxed support conditions in some countries (**France**, **Portugal**, **Romania**), while access has been restricted in other cases due to tight budgets (**Greece**, **Spain**). In some of the EU12, shifts can be observed with respect to the mix and targeting of instruments, partly due to the influence of EU Cohesion policy (**Lithuania**, **Slovakia**).

Following the crisis, business support instruments have been made more accessible and new instruments were launched in **France** and the **Czech Republic**, but in other countries funding gaps mean that cuts had to be made to business support measures (**Ireland**, **Netherlands**). There is also renewed interest in support to Enterprise Zones/Areas (**United Kingdom** (***England***, ***Scotland***, ***Wales***)) and Technology and Innovation Centres, as well as continued promotion of different types of clusters with new initiatives launched in some countries (**Greece**, **Ireland**, **Slovakia**). Another common trend concerns the streamlining or simplification of business support and its management (**Greece**, **France**, **United Kingdom *(England)***, **Italy**). Despite the importance of traditional support, there are also signs of an

increasing focus on the improvement of the business environment in the EU12 (e.g. **Poland**, **Slovenia**).

Regional development programmes are becoming more common, in part reflecting the influence of EU Cohesion policy, and also in line with efforts to support endogenous development. In **Finland**, for example, there has been a shift from direct aids towards the use of programmes enhancing the business environment, with a focus on innovation. In **Switzerland**, traditional aid instruments were discontinued in 2008, and support is provided via programmes developed in cooperation between the federal government and the cantons. In contrast, the use of regional programmes has been discontinued in the **United Kingdom *(England)*, Portugal** and the **Netherlands**. There has also been a greater focus on thematic regional strategies, notably concerning the development of regional innovation strategies (**France**, **Ireland**, **Sweden**).

There has been a growing interest in non-grant financial instruments in a context of tight budgets and influenced by EU Cohesion policy. They are often run centrally without a particular regional focus, but there in some cases more targeted initiatives are in place or assisted areas receive preferential treatment (**Austria**, **Denmark**, **Finland, France**, **Ireland**, **Lithuania**). However, there are concerns over the geographical spread of the provision of business finance and the challenges linked to implementing such instruments, as well as their usefulness in lagging areas.

Table 10: Developments in regional incentive frameworks in Europe, 2010-11

Country	Main developments in regional incentive frameworks
Austria	Regional aid largely operated at sub-national level, i.e. by the *Länder*.
Belgium	Vlaanderen: Legal basis for support for strategic projects aligned with EU requirements regarding incentive effect; minimum investment required for training projects reduced. Call system in place for ecological premium replaced by open-ended system and maximum grant per firm lowered. Wallonie: Investment aids for large firms and SMEs, and support related to environmental issues, to be continued after 2013; anti-crisis measures extended in February 2010.
Bulgaria	Companies engaged in production activities in municipalities with unemployment over 35 percent higher than the national average can retain corporation tax, but need to invest it in tangible and intangible assets for the production activity. From 2011, minimum threshold for investment support in these areas lowered; lower investment ceilings and job creation requirements for priority investment projects in industrial zones and technology parks. Preferential treatment of investment in north west of Bulgaria.
Cyprus	Financial incentives and support to infrastructure development in rural and urban areas.
Czech Republic	Main instruments are direct grants allocated in the context of regional incentives, infrastructure support, SME support, regional programmes and, to a limited extent, under sectoral policies.
Denmark	Regional aid ceased in 1991. For 2007-13, aid is available only on small no-bridge islands in designated areas under the Structural Funds (demand for this type of support has increased in recent years, possibly as a consequence of the financial crises).
Estonia	Main instruments are direct grants (manufacturing, accommodation, renewable energy, technology investment, tourism), soft loans, guarantees.
Finland	No major change since four regional aids were merged into two in 2006/07 (business development aid and development aid for the business environment); evaluation of sub-scheme providing support for sole proprietors for hiring of first employee.
France	More 'defensive' use of regional policy grant (PAT) due to crisis, focusing on extension projects that allow safeguarding existing jobs and on support to reuptakes of firms. Mid-term revision of aid map during 2010 leading to marginal changes.
Germany	Business aid (GRW) in assisted areas: additional funding in response to the crisis (€180 million in 2009-11); the increase in award maxima for large projects in certain 'C' and 'D' areas under EU temporary framework measures ended in December 2010. Tax concessions (Investment Allowance) for new *Länder*: aid rates reduced (scheme to be phased out by 2013).
Greece	New Investment Incentives Law (2011): operates mainly via tax exemptions due to budget constraints, but a broader range of support is available for projects promoting regional cohesion, technological development, youth entrepreneurship, large investment plans, integrated business plans, and partnership and networking (clusters of at least 10 enterprises in the Region of Attica and the Thessaloniki Prefecture and of at least 5 enterprises in other prefectures).
Hungary	Grants, loans (including automatic interest rate support and guarantees) and support to large-scale investments. No specific spatial targeting of incentives (contribution to territorial cohesion can play a role during project appraisal).
Ireland	Variable grant available in assisted areas to support new business investment and expansion. Nationwide grants are available for expansion projects, employment retention and investment in R&D.
Italy	Majority of aid schemes implemented by regional authorities. Mezzogiorno: Refinancing of tax credit for investment through planned reprogramming of Cohesion fund programmes; new tax credit for stable employment.
Latvia	Main instruments are direct grants (high added-value investment, technology and eco-innovation, renewable energy and energy efficiency, new products and technologies, business creation and development, SMEs in assisted areas).
Lithuania	Main instruments are non-recoverable aid (energy provision, tourism, guarantee payments, support for credit, broadband) and tax exemptions/ tax relief/ write-off of late interest and penalties/ other exemptions.
Luxembourg	Regional and SME aid scheme laws revised in 2008 in response to new EU aid frameworks: grants maintained as most frequently used instrument, tax relief discontinued and re-introduction of interest payment and partial surplus exemptions. New law on aid scheme for environmental protection and rational use of natural resources adopted in 2009.
Malta	Main instruments are direct grants (investment aid, innovative start-ups, sustainable tourism). Higher tax incentives introduced for micro-firms on Gozo island in response to the crisis and preferential treatment of disadvantaged employees.

Netherlands	Investment Premium (IPR) abolished with effect from January 2011 following a change of government and reform of enterprise policy.
Norway	No recent change to regional aid package (investment grants, risk loans, advice and development support). Increase in loan provision in 2009 reflecting the impact of the economic crisis. 2009 White Paper explicitly recognises importance of social security concession to regional development. *NyVekst* scheme for small firms with growth potential introduced in 2008 (annual budget €12.5 million).
Poland	Four main instruments: Corporate Income Tax exemptions in 14 Special Economic Zones, real estate tax exemptions, investment/ employment grants, and regional aid under Cohesion policy programmes. Growing share of regional State aid and increasing activity in the context of Cohesion policy.
Portugal	Three main regional incentive schemes for RTD, innovation (70 percent of funding), and SME modernisation/ internationalisation. Delays occurred in approved projects due to the crisis; in response, modifications were introduced to accelerate spending, simplify procedures and increase the strategic concentration.
Romania	Domestically-funded regional aid scheme in place since 2008 to support large investment projects. Aid schemes for regional development through the creation and development of business support structures and for regional development through tourism support.
Slovakia	Investment support for firms in disadvantaged regions (grants, tax incentives). New categories of aid intensity are supposed to target more sophisticated sectors and less developed regions.
Slovenia	Regional aid in the form of grants (Pomurje region) and loans via the Slovenian Regional Development Fund. Additional instruments introduced to promote investment in Pomurje region (employment incentives, tax relief and priority treatment of applications for national tenders). More funding allocated to investment incentives in border regions in 2011/12.
Spain	Regional incentive scheme providing grants for manufacturing and some service sector projects. After temporary changes in late 2008 eligibility conditions and award criteria were tightened in June 2010 due to difficult budgetary context. Also, efforts to avoid overlaps in funding.
Sweden	Regional incentives include regional investment aid, the regional grant for business development, the employment grant and transport aid. Changes may be forthcoming following a 2010 analysis of regional investment aid over the 2000-09 period.
Switzerland	Phasing-out of area-based firm support with introduction of New Regional Policy (NRP) in 2008. In NRP areas, grants and loans available in the framework of cantonal programmes for preparation, implementation and evaluation of initiatives, programmes and projects targeted at improving the location or pre-competitive conditions of the regional economy. After transition phase at the start of 2011, population coverage for tax allowances further reduced by almost two-thirds to 10.1 percent.
United Kingdom	Discretionary grant aid for capital investment, with higher rates of award being available in assisted areas. England: Grant for Business Investment abolished in February 2011 (except for 'large exceptional projects' and applications to the Department of Energy and Climate Change to support offshore wind schemes) Some compensation vie Regional Growth Fund. Wales: New policy document announces move away from culture of direct business support, with Single Investment Fund (SIF) abolished and reallocated to infrastructure projects and six key sectors; some funding still available for 'regionally important growth businesses' and strategic projects. Scotland: Commitment by the new SNP Government to continue Regional Selective Assistance (RSA); transferred to the enterprise agencies in terms of budget and project assessment.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

Table 11: Regional aid coverage and ceilings for the 2007-13 period (adapted as of 2011)

Country	Aid Area Coverage	Aid Ceilings
Austria	22.5% of the population under 'c' areas)	15-20%
Belgium	25.9% of the population (12.4% under 'a' areas; 13.5% under 'c' areas)	30% ('a' areas); 10-15% ('c' areas)
Bulgaria	100% of the population under 'a' areas.	50%
Cyprus	50% of the population under 'c' areas.	15%
Czech Republic	88.6% of the population under 'a' areas (exclusion of capital city)	30-40%
Denmark	8.6% of the population under 'c' areas.	10-15%
Estonia	100% of the population under 'a' areas	40-50%
Finland	33% of the population under 'c' areas.	10-15%
France	18.4% of the population (2.9% under 'a' areas; 15.5% under 'c' areas)	50-60% ('a' areas); 10-15% ('c' areas)
Germany	29.6% of the population (12.5% under 'a' areas; 17.1% under 'c' areas)	30% ('a' areas); 10-20% ('c' areas)
Greece	100% of the population (56.1% under 'a' areas; 43.9% under 'c' areas)	30-40% ('a' areas); 15-20% ('c' areas)
Hungary	100% of the population (72.2% under 'a' areas; 27.8% under 'c' areas)	30-50% ('a' areas); 10-30% ('c' areas)
Ireland	50% of the population under 'c' areas.	10-15%
Italy	34.1% of the population (30.2% under 'a' areas; 3.9% under 'c' areas)	20-30% ('a' areas); 10-15% ('c' areas)
Latvia	100% of the population under 'a' areas.	50%
Lithuania	100% of the population under 'a' areas	50%
Luxembourg	16% of the population under 'c' areas.	10%
Malta	100% of the population under 'a' areas.	30%
Netherlands	7.5% of the population under 'c' areas.	10-15%
Poland	100% of the population under 'a' areas.	30-50%
Portugal	76.7% of the population (70.1% under 'a' areas; 6.6% under 'c' areas)	30-50% ('a' areas); 10-20% ('c' areas)
Romania	100% of the population under 'a' areas	40-50%
Slovakia	88.9% of the population under 'a' areas (exclusion of capital city)	40-50%
Slovenia	100% of the population under 'a' areas	30%
Spain	59.8% of the population (36.2% under 'a' areas; 23.5% under 'c' areas)	30-40% ('a' areas); 10-20% ('c' areas)
Sweden	15.3% of the population under 'c' areas	10-15%
United Kingdom	23.9% of the population (4.0% under 'a' areas; 19.9% under 'c' areas)	30% ('a' areas); 10-20% ('c' areas)

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow; 2007-13 Regional aid Guidelines and own calculations.

Table 12: Developments in regional business environment support in Europe, 2010-11

Country	Main developments in regional business environment
Austria	Different support schemes for the business sector administered by the European Recovery Programme (ERP) Fund. In 2010, interest rates were reduced and aid ceilings increased in response to the crisis. Most other business support implemented at sub-national level.
Belgium	Progress on promoting Vlaanderen as an 'innovation centre' under 'Vlaanderen in Action'. New entrepreneurship action plan and overall focus on enhancing entrepreneurship. Support to fast-growing companies ('gazelles') launched. In Wallonie, the second 'Marshall Plan' focuses more strongly on sustainability and aims to enhance the competitiveness poles programme.
Bulgaria	Regional plans foresee activities in support of local e-government, improvement of administrative services, establishment of training centres, skills upgrading and support for businesses, construction and upgrading of industrial sites; projects partly funded under EU Cohesion policy. 2010-13 Strategy for Broadband Access.
Cyprus	Efforts are focussed on the diversification of the national economy, based on a shift towards sectors with high added-value, and improving the business environment.
Czech Republic	Support programme for economically weak and structurally harmed regions re-opened in 2010 in response to the crisis; aimed at developing infrastructure to enhance business environment, combat unemployment and support tourism.
Denmark	The 2005 Business Development Act provided a statutory basis for innovation, ICT, entrepreneurship, human resource, tourism and peripheral area measures to be implemented by the Regional Growth Fora. Projects are mainly developed in the fields of entrepreneurship, innovation and training.
Estonia	The public institute Enterprise Estonia (EAS), initially set up for Structural Funds implementation, supports businesses by providing financial services, advice, partnership opportunities and training for entrepreneurs, R&D institutions and the public and third sectors.
Finland	Innovation support/networking highlighted in 2009-11 regional strategy of Ministry of Employment and Economy. Centre of Expertise programme continues (2007-13) while Regional Centre, Rural and Island programmes were combined into new regional cohesion and competitiveness programme (KOKO) in 2010. 2010 evaluations stress need for mobilisation of business sector and promotion of networks and synergies. Efforts to make support more strategic and far-reaching and widening it to demand- and user-oriented innovation activities in all types of regions.
France	Reindustrialisation Aid (ARI) launched in July 2010 to attract French businesses from abroad to relocate to France with higher support in assisted areas. Extension of phase 2 of competitiveness poles at inter-ministerial meeting in May 2010; six new poles selected in field of eco-technologies; support enhanced by funding from national loan taken up in response to the crisis. New *grappes d'entreprises* selected in 2010 and 2011 and moves towards more coherent cluster policy. Commission set up to identify options for regulatory simplification to unburden SME.
Germany	The main change in January 2011 was to extend GRW broadband funding to include support for 'high performance broadband connections and next-generation networks' in areas where current speeds are low. In addition, support for business-oriented, non-profit, research institutions in the new *Länder* (INNO-KOM-Ost) was amended in 2010 to include support for the modernisation of technical infrastructure.
Greece	Overall focus on reducing bureaucracy in line with targets to reduce public deficits. New laws to reduce red tape in approval and licensing of major investment projects and to speed up business start-ups. Creation of a unique Business Registry (GEMI) in 2011 and operation of one stop services.
Hungary	A growth pole programme fosters innovation and exports. It supports clusters and horizontal economic development by funding physical and human infrastructure developments. The growth poles cover seven regional centres: Budapest, Györ, Pécs, Szeged, Debrecen, Miskolc and the Székesfehérvár-Veszprém axis.
Ireland	Wide range of investment in business-related infrastructure, but slowing down of such investment under current austerity budget. Development of ten Competence Centres, with support from IDA Ireland and Enterprise Ireland.
Italy	Development contracts introduced in 2009 to simplify and rationalise available business aids were specified in December 2010. 'Restart' of incentive schemes to firms, which had met a situation of substantial stall since 2007, with new tenders launched under Operational Programme for Research and Competitiveness.
Latvia	Business environment support provided under EU Cohesion policy (e.g. investment support for micro, small and medium-sized firms operating in specially assisted areas).
Lithuania	Support for business environment mainly carried out as part of EU Structural Funds programmes (Economic Growth OP). Targeted support for economic free zones and industrial estates.
Luxembourg	Luxembourg for Business agency in charge of enhancing business support. New R&D aid scheme and introduction of innovation fund in 2009.

Malta	SME support under 'Eco Gozo' policy.
Netherlands	Phasing-out of the *Peaks in the Delta* policy following debates over spatial scale and governance of clusters. Primary spatial foci of the *Peaks* policy will continue to be targets of central government support under new enterprise policy via concentration on ten 'top sectors' (focus on urban areas). Cuts to spatial economic policy: Economic Structure Improvement Fund (FES) abolished with effect from August 2012; support for restructuring of large industrial estates discontinued from 2014.
Norway	Support for 12 Centres of Expertise (€8.75 million annual budget). Regionalisation activities of Research Council of Norway: 2007-17 Programme for Regional R&D and Innovation; set-up of regional research funds. New 2010-19 National Transport Plan with increased spending, partly in response to the economic crisis.
Poland	Main instruments organised under the sectoral OP Innovative Economy. Significant funding to business support under regional OPs in line with regional needs. Implicit regional orientation of business support elements of crisis response. High growth rate in business support institutions.
Portugal	'Collective Actions Support System' (SIAC) and 'Collective Efficiency Strategies' (subdivided into a cluster policy and territorially-based strategies for low-density areas and urban development actions). 'Strategy for Accelerating the Implementation of Business Projects' announced in July 2010, facilitating access to finance, enhancing flexibility for projects and simplifying procedures; new calls geared towards priorities of economic recovery.
Romania	The regional OP aims to improve inadequate regional business structures, especially the lack of utilities and space for economic activities, as well as information and communication technologies. Efforts to attract investment and to enhance regional and local economies by supporting localities with development potential. Eligible activities include work on buildings, infrastructure (roads, utilities, broadband) and other activities to develop business structures.
Slovakia	Institutional support for business environment coordinated by National Agency for SME Development (NADSME); implemented through network of specialised centres offering wide range of services to the SMEs at the level of the regions.
Slovenia	Support for the business environment is promoted at the national level as part of promoting competitiveness of Slovene economy.
Spain	Support provided primarily through industrial policy and RTDI policy (rather than regional policy), although many of the interventions in these policy domains are co-financed by Cohesion policy. Inter-territorial Compensation Fund (ICF) contributes through public infrastructure investment, concentrating mainly on motorways and roads, health, education, and environmental protection. December 2010 Plan for Comprehensive Industrial Policy 2020 (PIN2020), as part of the government's Strategy for Sustainable Economy.
Sweden	Involvement of Swedish Agency for Innovation Systems (VINNOVA) in regionally-targeted initiatives (e.g. innovation-related pilot activities, 'RegLab', dialogue on innovation strategies and research-based innovation). Discussion of bottlenecks in regional innovation systems. New eight-year cluster programme to be developed from October 2011 based on evaluation evidence.
Switzerland	Business support is the responsibility of the cantons with the federal level fulfilling a residual role. Its main task is to improve framework conditions in order to promote location attractiveness. Initiatives introduced in response to the crisis in order to facilitate access to export funding and reduce its cost were extended until the end of 2015. There will be increased funding for e-government and a new initiative on technology and knowledge transfer (WTT).
United Kingdom	In England, Regional Growth Fund created in February 2011 (£1.4 billion for 2011-14) to stimulate private sector investment. Closure of Business Link programme run by RDAs, re-introduction of Enterprise Zones, and launch of a network of Technology and Innovation Centres. National insurance exemption introduced for small businesses located in areas depending on public sector jobs. Four Enterprise Areas to be introduced in Scotland. Potential for differential rates of corporation tax to be in operation in different parts of the UK in future, following plans for devolving corporation tax to help rebalance the Northern Ireland economy.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

7. THE GOVERNANCE OF COMPLEXITY: RECENT DEVELOPMENTS IN THE IMPLEMENTATION OF REGIONAL POLICY

7.1 Introduction

The management and implementation of regional policies in Europe has seen dynamic change for almost 30 years, driven by the reorganisation of policy administration at different territorial levels (supranational, national, regional and translocal) and the associated challenges of ensuring effective policy management, efficient coordination and accountability. The changes are attributable to different factors and trends.

First, broad trends in public policy administration, apparent over the past two decades across Europe and beyond, have moved toward a new policy implementation model. Rather than traditional, hierarchical delivery systems, the value of more 'heterarchic' or 'network-based' approaches in dealing with increasingly complex policies is recognised. The design and delivery of regional policy involves both vertical and horizontal relationships and interactions. Knowledge is often decentralised and located at different administrative levels among different actors, and policy-making competences overlap. In such circumstances, effective coordination is vital.[152]

Second, in the case of regional policy, these broad trends in policy administration have been reinforced by a long-term conceptual shift in the paradigm of policy. This shift is variously influenced by economic development theories and concepts including: new economic geography; principal-agent theory; endogenous growth theory; new institutionalism; new regionalism; and, most recently, the concept of 'place-based' development. What these concepts have in common is an emphasis on the specific characteristics and resources of different territories in explaining agglomeration and other territorial development patterns, the varied spatial impact of economic development processes, and the need for policies to take territorial specificity into account. Underpinning several of these concepts – notably the place-based model - is the conviction that 'good governance' at local and regional levels can promote stronger economic growth and development.[153] Advocates argue that complex regional development patterns and processes cannot be addressed by 'top down' or uniform policy responses but require an administrative system capable of designing and implementing, locally sensitive, place-specific strategies that combine specific combinations of policy interventions.[154] As acknowledged by one of its leading proponents, implementing the place-based policy approach is complex and risky.[155] It assumes: a multi-level governance system whereby

[152] OECD (2009) *Governing regional development policy: the use of performance indicators*, Organisation for Economic Cooperation and Development, Paris.

[153] Pike A, Rodriguez-Pose A and Tomaney J (2006) *Local and Regional Development*. Routledge, London.

[154] Tödtling F and Trippl M (2005) 'One size fits all? Towards a differentiated regional innovation policy approach' *Research Policy*, 34, pp. 1203-1219.

[155] Barca F (2009). *An Agenda for a Reformed Cohesion Policy, A Place-Based Approach to Meeting European Union Challenges and Expectations* p.xi.

higher levels of government define strategic objectives; agreement on the contribution of each level/actor to implementation; the capacity of lower levels to express local knowledge and interests, and the scope to identify investment priorities; and robust information channels and verification mechanisms.

A third factor is the EU, which has provided an important external impetus to the evolution of new regional policy delivery models. Through its participation in regional policy, particularly under the Structural Funds programmes funded by Cohesion policy, the EU has contributed to the changing relationships between actors situated at different territorial levels. The Structural Funds programming principles of partnership and subsidiarity encourage regional, national and supranational levels of government to co-ordinate regional policy initiatives.

In addition to these long-term drivers of institutional and administrative change, a more recent factor is the economic crisis. As noted elsewhere in this report, austerity measures in several countries are leading to significant cuts in public expenditure and also a 'reshaping' of the role of the state and the way in which government intervention is managed and delivered.

The way in which these factors influence the governance of regional policy varies greatly across Europe, determined by the specific characteristics of national administrations and regional policy systems. The following chapter explores how the management and implementation of regional policy has been changing, focusing in particular on recent developments over the past few years. Specifically, the chapter examines: the rescaling of policy management and implementation frameworks; the use of coordination mechanisms; and the introduction of performance management measures to improve policy efficiency and accountability.

7.2 Rescaling policy management and implementation frameworks

A central theme of policy debates on the governance of regional policy is the 'optimal' territorial scale for policy design and delivery. This is a complex issue. Current concepts of regional policy, including the 'place based' approach, advocate implementation models that can respond to fluid development trends (such as the movement of firms, people and other resources) that traverse the geographical borders and policy competences of individual public administrations. According to the OECD, the involvement of different administrative scales should "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".[156] The reference to capacity is important: several European countries have encountered substantial difficulties in managing major economic development programmes, especially via sub-national levels.

[156] OECD (2010) *Regional Development Policies in OECD Countries*, Organisation for Economic Cooperation and Development, Paris p31.

In understanding the way in which multi-level governance is evolving, and particularly the regionalisation of administrative functions, it is useful to distinguish between political regionalisation and administrative 'rescaling'.

7.2.1 Political regionalisation

Over the past two decades the rescaling of regional policy delivery has been part of a broader devolution or regionalisation of political responsibility to sub-national administrations. Many regions have gained more political authority in a greater range of policy areas, including economic policies.[157] Among the more recent instances of this trend are **Greece, Sweden** and **Finland.**

The most wide-ranging example is the Kallikratis Plan in **Greece.** Launched in 2010, this Plan has established 13 regional self-governments, replacing the complex system of 57 Prefectures and 19 Counties at the intermediate level. The reforms aim to decentralise responsibilities to regional and local authorities, enhance the financial independence of local authorities, significantly reduce the number of municipalities, and rationalise the system of municipality loans.

In the Nordic area, political regionalisation has been proceeding on a more experimental basis. In **Sweden**, the regionalisation process has included pilot initiatives establishing directly-elected regional bodies in Skåne and Västra Götaland.[158] These were made permanent in January 2011.[159] Similar responsibilities have been given also to the regions of Halland and Götaland. Similarly, in **Finland**, piloting of a self-governance experiment has been undertaken since 2005 in the peripheral Kainuu region.[160] The initiative has been assessed as relatively successful in terms delivering services in challenging conditions. Progress from a regional development perspective (e.g. in terms of providing better conditions for businesses, more jobs and slowing down out-migration) has not been as positive, although improvements have taken place.[161] Nonetheless, a decision has been taken to continue the initiative beyond 2013.

Nevertheless, the tensions surrounding political rescaling should not be underestimated. For instance, proposals for territorial reorganisation in **Romania** were the subject of heated debated in 2011. The reforms proposed strengthening the country's eight NUTS 2 administrative regions in relation to the NUTS 3 level counties. The current programming period has seen several instances where administrative regions lacked the legal authority to promote larger scale, inter-county projects, while political divisions hampered cooperation

[157] Marks G, Hooghe L and Schakel A H (2008b): 'Patterns of Regional Authority', *Regional and Federal Studies*, Vol. 18 (2-3): 167-181.

[158] OECD (2010) *Territorial Reviews, Sweden*, Organisation for Economic Cooperation and Development, Paris, p. 151.

[159] Law 2010:630 on regional development responsibilities in certain counties.

[160] The Finnish Parliament passed the law on the Kainuu self-governance initiative in 2003.

[161] Airaksinen J (2010) 'Kainuun hallintokokeilulla laihat vaikutukset aluekehitykseen', *Alueintegraattori,* Ministry of Employment and the Economy, 2/2010

among the counties. Nevertheless, differences concerning the number, size and powers of reformed regional units, based on party political divides, have stalled the reform process.

An important indicator of the significance of political regionalisation is whether it involves fiscal decentralisation. This is particularly relevant for regional development given that some recent research has argued that effective regional policy action in tackling disparities depends on fiscal decentralisation.[162] The ability of regions to levy and spend tax revenue is an established part of federal systems in Austria, Belgium, Germany and Switzerland and is also, a sometimes contested, part of the debate on devolution in other countries. In the **United Kingdom**, the ability of the devolved administration in Scotland to set its own income tax rates is currently being debated as part of a devolution bill before the UK Parliament and has given rise to discussion about whether the power to set corporation tax rates should also be devolved. In **Poland,** ongoing reform includes discussion of increasing the share of regional self-governments in tax-raising, limiting the use of earmarked grants from central government and reforming subsidies. The aim is to increase the autonomy of sub-national units in steering development policy.

7.2.2 Administrative rescaling

Administrative rescaling involves decentralising, streamlining or sharing policy administration across territorial scales. Short of institutional or political regionalisation, such changes seek to rescale authority, reallocating responsibility for the delivery of some public services and policies. Since the 1980s, the transfer of administrative responsibilities to regional authorities (either regional offices of the State, or other regional bodies established in the regions) has occurred in Finland, France, the Netherlands, Sweden and United Kingdom. More recently, administrative regionalisation has been promoted in Central and Eastern European countries - such as the Czech Republic, Hungary and Romania – by organisational changes introduced to manage and implement Cohesion policy programmes.[163]

Two examples of recent change are Norway and the Netherlands. Policy-making in **Norway** has traditionally been the function of central government and policies are then implemented by national agencies (Innovation Norway in the regional development context) together with municipality or county authorities. In recent years, processes of administrative decentralisation have been underway, notably through the 'Responsibility Reform' *(Ansvarsreformen)* which began in 2003. Changes introduced in 2010 mean that counties are now more involved in the funding of regional infrastructure, innovation and regional research. The country has been divided into seven research fund regions and a triple-helix approach adopted, involving universities and research institutes, the private sector and the counties.

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[162] Rodríguez-Pose A (2010). "Do institutions matter for regional development?," *Working Papers 2010-02, Instituto Madrileño de Estudios Avanzados (IMDEA) Ciencias Sociales.*

[163] Scherpereel J A (2010): EU Cohesion Policy and the Europeanization of Central and East European Regions, *Regional & Federal Studies*, 20:1, 45-62.

In the **Netherlands**, administrative decentralisation is a consequence of the new national coalition government committing itself to reducing the scope of government intervention "by cutting back on our tasks and government funding and reducing administrative pressure through a clearer division of responsibilities and powers".[164] Central government, provinces and municipalities are to "restrict themselves to their core tasks". The numbers of government ministries and civil servants are to be reduced, partly by discontinuing certain functions and partly by decentralisation and transfer of tasks to provinces and municipalities. Under the policy, direct intervention and funding by central government for regional economic policy will largely be discontinued, and regional development will, for the most part, lie with the provinces and municipalities.

Administrative regionalisation in **France** is long-standing. In order to end the existing entanglement of competences, accumulation of structures, increasing complexity of finances and dilution of responsibilities, a number of changes are underway, notably in the follow-up to the 2010 Law on the Reform of Territorial Authorities.[165] Although it is not yet clear how the new arrangements are going to be put into practice, there is increased scope for sub-national authorities (regions and *départements*) to decide on how they want to divide responsibilities in the framework of 'competence organisation schemes'.[166]

For many years, decentralisation has focused on strengthening the role of regional authorities. In this regard, it is interesting to note that some recent processes of administrative rescaling have weakened the status of regional-level structures. On the one hand, efforts to develop 'trans-local' delivery systems are a response to fragmentation at local levels; pooling financial resources and policy competences and aggregating them upwards. This 'rescaling' is also part of efforts to develop a more flexible or 'fine grained' delivery system that can respond to mismatches between regional administrative boundaries and functional economic areas such as cities, urban areas or rural territories. This is producing a range of administrative arrangements: merged local authorities, associations of municipalities, city-regions, local private-public partnerships etc.

For example, in **Norway**, the county level is being encouraged to cooperate more closely with municipalities in the delivery of regional policy. In addition, interactions between municipalities and also between them and the drivers of development at the local level (entrepreneurs, the young, voluntary associations) are being strengthened. Cooperation is seen as particularly important in the innovation field. In this context, outside the big cities, small firms are being brought together within 'business gardens'. Similarly, in **Finland**, the PARAS reform project has focused on stronger municipal and services structure, new

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[164] *Freedom and Responsibility: Coalition Agreement VVD-CDA*, 30 September 2010, http://www.government.nl/dsc?c=getobject&s=obj&objectid=127729

[165] Work was based on the report by a reform committee: Comité pour la réforme des collectivités locales (2009) *Il est temps de décider*, Rapport au Président de la République.

[166] Forray J (2011) *Selon Jean-Jacques de Peretti, il faut « s'affranchir d'un modèle unique de décentralisation »*, Interview published in La Gazette des Communes, 20.06.2011, http://www.lagazettedescommunes.com/. See also: Lefèvre A (2011) *Rapport d'information fait au nom de la délégation aux collectivités territoriales et à la décentralisation sur la clarification de la répartition des compétences entre l'État et les collectivités territoriales*, enregistré à la Présidence du Sénat le 2 février 2011.

delivery mechanisms and organisation for these services, reform for municipal funding and State co-funding, and on the division of responsibilities between municipalities and the State. The project has been implemented largely through municipal mergers.

For different reasons, the role of lower administrative levels in **Switzerland** is evolving. Under the New Regional Policy, there has been concern among sub-cantonal structures (termed 'regions' in the Swiss context) about a weakening of their role. Consequently, a many cantons are in the process of restructuring and strengthening their sub-cantonal structures, and there have been changes with respect to the name and size of some units and the creation of additional regions.[167]

More radical are recent changes in the **United Kingdom.** Following the 2010 UK elections, the new government abolished Regional Development Agencies (RDAs) and regional Government Offices in ***England***. The justification was that RDAs were operated 'top-down', covering artificial areas, and lacking accountability.[168] In abolishing the agencies, the government argued that there is a need to shift power to local communities and businesses. This is reflected in the creation of Local Enterprise Partnerships (LEPs), groupings of local authorities and representatives of the business community. These are expected to work across administrative boundaries on local planning and development initiatives. 'City regions' are expected to form the basis for some LEPs. These go beyond local authority boundaries, joining more than one city together in terms of strategic planning (e.g. on economic development, physical planning or housing) and are based on new governance arrangements, such as executive boards.

Finally, in **Lithuania**, a comparable recent reform has downgraded county-level bodies to statistical units, reallocating their administrative functions to the municipalities and central government ministries. The reform is part of an overall strategy of reducing state expenditure on governance.

7.3 The use of coordination mechanisms

The multi-level governance of regional policy requires coordination between (and across) levels of government. A key challenge is to find the right policy mix, in terms of a balance between aspatial or general policy measures (often designed by national government and applied uniformly across the country) and spatially targeted interventions (usually designed, or at least implemented at sub-national levels, and adapted to the needs of specific regional or local areas). The coordination challenge also relates to integrating the resources and inputs of a range of organisations from different levels of public administration and from the private sector. In terms of arenas or axes of coordination, a basic two-fold typology is prominent in the literature: vertical coordination of different tiers of public authority; and horizontal coordination at different administrative levels. A

[167] Universität St. Gallen (2010) *Neue Regionenkarte der Schweiz, Auswertung der Umfrage unter den Kantonen zu den Veränderungen im Zuge der NRP*, Institut für Öffentliche Dienstleistungen und Tourismus, PowerPoint Präsentation, 02.12.2010.

[168] Ward M (2010) *Rebalancing the economy: prospects for the North*, Report of the 'Fair deal for the North' inquiry undertaken by the Smith Institute p31.

range of coordination tools or structures are used, varying in terms of the balance of inputs from different administrative tiers and the level of formality.

7.3.1 Coordination through delegation

In centralised or unitary systems coordination is often pursued through 'centrally coordinated decentralisation'. In these cases, coordination is sought through the submission of regional-level plans within national frameworks, targets or guidelines.

- For instance, in **Norway**, although processes of administrative decentralisation are underway, the counties are not entirely free to decide how to dispose of the funds allocated to them. The annual budget allocation from central government is accompanied by 'guidance' concerning priorities.

- This approach to coordination has also been prevalent in some EU12 countries as regions have been building their capacity to contribute to strategic development. In the **Czech Republic**, for instance, all domestic regional policy programmes are managed by the Ministry of Regional Development. The Ministry, on the basis of defined methodological guidelines, delineates eligible regions and calls for project proposals which are submitted by individual municipalities or other eligible subjects.

- In **Poland**, the Ministry of Regional Development played a leading role in determining the content of the current generation of ERDF Regional Operational Programmes, 2007-13. At the outset of the programming period, the Ministry developed guidelines (or *wytyczne)* to ensure that resources are allocated according to its priorities. It should be noted, however, that as the capacity of regional administrations increases their input into regional policy management and implementation has increased.

7.3.2 Coordination through negotiation

Increasingly prevalent is the use of negotiated coordination arrangements, including contracts, covenants and partnership agreements. This is clearly the case in more regionalised or federal systems, where significant informational, fiscal and policy resources are being pooled from different levels.

- In **Germany**, the GRW (Joint Task for the Improvement of Regional Economic Structures) is a framework agreed between the federal government and the states (*Länder)* for the implementation of regional development policy,[169] including the definition of eligible areas, the agreement of aid ceilings, and the setting of eligibility rules.

- In **Switzerland**, the design and implementation of the New Financial Equalisation and Division of Tasks (NFA) mechanism provides a new framework for cooperation,

[169] Deutscher Bundestag (2009) *Koordinierungsrahmen der Gemeinschaftsaufgabe, Verbesserung der regionalen Wirtschaftsstruktur' ab 2009*, Drucksache 16/13950, 08.09.2009, Berlin.

notably multi-annual programme agreements between the federal and cantonal levels. This approach has also shaped the New Regional Policy where the Confederation and cantons are asked to enhance coordination in order to improve efficiency. The main partner for the federal level is the Conference of Cantonal Economics Directors (VDK). During the economic crisis, the VDK has coordinated the crisis response between the cantons and the federal level.[170]

Even in cases where the national level retains the main regional policy competences and resources, there may be partnership and negotiation between levels of government; active involvement of sub-national tiers has the potential to deepen the information base for policy design and strengthen ownership of, and commitment to, interventions.

- Examples are the state-region contracts (CPER) in **France** and the territorial contracts which are planned in **Poland**. In principle, these contractual arrangements are a means of implementing higher order (national, European) guidelines and priorities at the regional level, and also as a means for the regions to express their own policy priorities and investments. In France, the CPER may cover a combination of policy areas (infrastructure, education and training, social issues, and also science, technology and innovation etc.) depending on the degree to which central and regional authorities consider these to be crucial for the territory in question. The defined investments are commonly financed jointly by the central State (i.e. government ministries) and the regions.[171]

- In **Denmark**, vertical coordination between the national and regional levels has increased, not just through legislative regulation but also via the subsequent partnership agreements between central government and each of the six regional growth fora. This entails a general political commitment to shared goals and specific undertakings that the two sides will attempt to progress. The official purpose of the political commitments is to secure compatibility between the globalisation strategy of central government and regional strategies for economic development, but it also strengthens commitment to regional development activities by central government departments other than the Ministry of Economic and Business Affairs.

7.3.3 Coordination through organisational change

In several countries, coordination is sought through organisational restructuring or through the establishment of dedicated coordination structures at national or sub-national levels. The restructuring of central ministries or departments involved in regional development often reflects the relative status attached to the policy, reveals current perceptions of the regional challenge and strengthens the horizontal coordination of regional policy with sectoral policies.

[170] Unseld T (2009) Die Rolle der Kantone in der Konjunkturkrise, *Die Volkswirtschaft*, 2009(3), p.33.

[171] Kroll H, Zenker A and Héraud J-A (2010) 'Policy co-ordination between the national and regional levels in France and Germany: A short overview of the Bund-Länder co-ordination .in Germany and the French Contrats de projets État-région' *evoREG Research Note #7* September 2010.

- In the **Netherlands**, the Ministry of Economic Affairs *(Ministerie van Economische Zaken)* has been augmented by agri-food policy and innovation policy functions to become the Ministry of Economic Affairs, Agriculture and Innovation *(Ministerie van Economische Zaken, Landbouw en Innovatie, MEZLI)* with a remit to promote the international business competitiveness of the country. Within the new ministry, a Directorate-General for Environment and Regions (DGER) has been created (bringing together two directorates from previous separate ministries). In 2012, the DGER will be reorganised to have two Directorates, dealing with regional and spatial Policy, and nature and environment.

- In **Latvia**, the Ministry of Regional Development and Local Government was merged at the beginning of 2011 with the Ministry of the Environment forming the Ministry of the Environmental Protection and Regional Development.

- In **France**, responsibilities for regional development were moved in 2010 from the Ministry for Rural Areas and Territorial Development to the Ministry for Agriculture, Food, Fisheries, Rural Affairs and Territorial Development. This means that more account is taken of issues relating to rural development.

Improved horizontal and vertical coordination can be achieved through the establishment of dedicated coordination arrangements at national or sub-national levels, such as joint planning committees and partnership fora.[172] Particularly where a broad range of regional development challenges being addressed, cutting across policy sectors and administrative boundaries, national governments have a role in setting an overarching coordinating framework. In several European countries, this is reflected in the establishment of central government structures that bring together regional policy and sectoral ministries and departments with the aim of identifying the territorial impact policies and funding streams and developing a coordinated approach.

- In **Poland,** the Committee for Development Policy Coordination, operating under the instruction of the President of the Council of Ministers, seeks to maintain consistency between development strategies from different ministries, including from a territorial perspective. In order to facilitate coordination of these strategies, inter-ministerial working groups are being established for the development of each strategy. During the current phase, a process of identifying and estimating resources to be allocated to KSRR objectives from sectoral and horizontal ministries and agencies is underway. Further, a planned National Territorial Forum will support strategic discussions at the national level, initiating debates on regional policy directions and the spatial dimension of development policy between public and private partners.

- In **Switzerland**, cross-sectoral coordination is an important element of regional policy. A committee for regional policy, comprising representatives of different federal departments, is a long-standing component of the system. In recent years,

[172] OECD (2005) *Building competitive regions: strategies and governance*, Organisation for Economic Cooperation and Development, Paris, p89.

elements of 'spatial proofing' have been introduced, including the establishment of a Conference for Spatial Planning *(Raumordnungskonferenz, ROK)* as a forum for inter-ministerial coordination and the Spatial Planning Council *(Raumordnungsrat, ROR*) as an external advisory committee.

- In **Norway**, coordination across government departments is also a priority given the size and significance of sectoral budgets in the regions. Four government ministries and 19 counties collectively own the main economic development agency, Innovation Norway, and have established a Coordination Forum that will meet twice a year.

- In the **Czech Republic**, a special working group was established at the national level at the end of 2009 to coordinate the regional dimension of sectoral policies. This followed the recommendations of the mid-term evaluation of Regional Development Strategy 2007-2013.[173] In Slovenia, a new addition to national level bodies is the 'Council for the Territorial Balance of Development Initiatives', headed by the Prime Minister, responsible for co-ordination of development policies that have a territorial impact.

In several cases, coordination fora involve representatives of different administrative levels in committees or networks that have a thematic focus on key regional policy issues. One example is the use of thematic networks **Switzerland**, notably the network for agglomeration policy and the Federal Network for Rural Development *(Bundesnetzwerk Ländlicher Raum*). In **Sweden**, thematic groupings facilitate sectoral coordination between the national agencies and between agencies and regional actors. They focus on the priorities of the national strategy for regional competitiveness, entrepreneurship and employment (i.e. innovation and renewal, competence development and supply of labour force, accessibility, and, strategic cross-border cooperation).

Coordination bodies at sub-national level include Cohesion policy Monitoring and Steering Committees. Beyond this, there are some instances of dedicated coordination structures are being established to ensure strategic discussion of broader development processes in individual regions and to establish a platform for exchange of information and experience within regions and with the centre. For example, this is the remit of the Territorial Fora in **Poland**. In other cases, central governments have been active in establishing these sub-national coordination arrangements.

- In **Sweden**, in response to the financial crisis, the government appointed regional coordinators to report on regional conditions and identify whether intervention was required (primarily concerning education and labour market policies, including those targeted at particular sectors and industries).

[173] BermanGroup, Cassia and EEIP for Ministry of Regional Development (2009) Assessment of Coherence between Objectives and Priorities of the EU Programmes on one hand and Objectives and Priorities of Regional Development Strategy 2007-2013 (Final summary report) p38 (in Czech).

- In the **United Kingdom (*England*)**, the Department for Business, Innovation and Skills (BIS) has established a network of six teams to promote economic growth at local level. The teams are intended to support the delivery of BIS policy 'on the ground', including through briefing and visits. They will take the lead on BIS relationships with Local Enterprise Partnerships and local government to outline BIS national policy priorities, assist with the coordination of economic development delivery, and help partnerships build their capacity and capability. They will also provide 'hard' and 'soft' local intelligence and help coordinate government responses to economic shocks, including major company failures.

- A similar approach was used until 2010 in the **Netherlands** where the Spatial Economic Policy Directorate within the Ministry of Economic Affairs had a regional mode of operation. Programme teams were established for each region bringing together central Ministry civil servants (who work part of the week in the regions) and those located in the regional offices of the Ministry; each team worked together with economic development actors in the region to progress region-specific initiatives. (This approach has now been superseded by the transfer of most regional development responsibilities to provinces and municipalities.)

7.4 Performance management

In recent years, increasing weight has been place on managing the performance of regional policy instruments that are implemented across administrative and/or sectoral boundaries. The use of performance management instruments is justified on the grounds of policy efficiency and accountability.[174] Several factors can intervene at national and sub-national levels to alter or subvert original policy goals during the implementation process. Efficient implementation depends on levels of administrative capacity at national and sub-national levels: despite a commitment to compliance, initial priorities may be altered for pragmatic reasons. Unanticipated events can change the institutional or socio-economic environment in which regional policy programmes are implemented, creating new priorities. Some studies highlight the threat of 'pork barrel' or distributive politics to compliance with original policy.[175] Accountability challenges have also been identified, in multi-level systems operating through complex networks, partnerships and deliberative fora.[176]

Performance management instruments seek to address these problems. The term encompasses a range of mechanisms by which organisations and individuals are motivated to perform. Different approaches to their use are apparent in different regional policy contexts. Three basic categories of performance management instruments can be

[174] Ferry M and Bachtler J (2011) *EU Cohesion Policy in a Global Context: Comparative Study on EU Cohesion and Third Country and International Economic Development Policies*, Final Report submitted to DG Regio.

[175] Dellmuth L M and Stoffel F (2011) 'Why Is Regional Development Aid Ineffective? The Constituency-level Allocation of EU Structural Funds', Paper prepared for *69th MPSA Annual National Conference*, Chicago, IL, March 31 to April 3, 2011.

[176] Bovens M (2007), 'Analysing and Assessing Accountability: A Conceptual Framework.' *European Law Journal*, 13: 447–468

identified: performance management levers; conditionalities; and incentives or sanctions.[177]

7.4.1 Performance management levers

Performance management levers concerns those instruments that implicitly motivate efficient performance but are not primarily designed for sanctioning or rewarding purposes. These include some of the coordination mechanisms already covered in Section 7.3.

Resource allocation mechanisms. The multi-level governance of development policy requires mechanisms to allocate funding between tiers, providing opportunities to strengthen performance management. Funding for economic development is allocated according to various measures, such as past performance, organisational capacity and the achievement of targets. In the case of regional policy, it is important to distinguish between mechanisms attached to individual projects and instruments and those that are used for regional policy programmes that are based on broad, multi-sectoral perceptions of the regional policy challenge, including combinations of different interventions delivered across administrative levels. At the micro-level, performance management is fundamental to regional policy across European countries. The basic mode of operation revolves around specific incentive schemes with associated eligibility criteria and the award of financial support to projects in the form of grants to which performance-related criteria can be attached. Eligibility criteria set basic conditions for resource allocation and often relate to the size of the project, the location, the sector and eligible costs. They may also be regulatory (e.g. relating to compliance with budgetary rules, environmental standards, public procurement rules etc). Of particular interest are the quality criteria that relate to a commitment to specific outputs (such as jobs created, firms assisted, private funding leveraged etc.).

- Under the GRW in **Germany**, projects must demonstrate that they will contribute to a lasting and significant rise in the region’s aggregate income, which is usually seen to imply that the firm will export over 50 percent of its turnover outside the region (defined as a radius of 50 kilometres). In addition, the project must generate at least a 15 percent increase in the number of jobs, or the total investment must be at least 50 percent higher than the value of tax deductions in at least one of the last three years. In **Spain**, under the regional incentives scheme, firms must maintain the number of jobs created for at least two years after the end of the term set in the resolution granting the aid.

- Project selection criteria may be process related, covering issues of transparency, participation and accountability in the delivery of the intervention. In **Switzerland**, it is a legal requirement that one-third of federal funding contributions to NRP projects must be employed for inter-cantonal projects.

The use of resource allocation mechanisms to manage the performance of broader, multi-sectoral regional policy programmes that combine different interventions and are delivered

[177] Ferry and Bachtler (2011) *op. cit.*

across administrative levels is much more challenging. The allocation of regional policy funding to specific territories is usually not discretionary; it is decided according to a range of criteria (GDP per head, employment rates, education levels, population density etc.). Past performance levels are not taken into account: funding to regions will be renewed regardless of past compliance with regional policy goals. Nevertheless, co-financing is an important instrument of performance management in some European countries, ensuring that funding and priorities are consistent in shared management systems while strengthening the commitment or ownership of different partners to efficient performance.

- In **Switzerland**, the efficient allocation of funds is mainly ensured via the principle of 'cantonal participation', requiring co-financing contributions of 50 percent to implementation programmes. Within this, funding can be used flexibly by the cantons based on global grants delegations. They also have to assume 50 percent of any incurred loss, encouraging them to take precautions to avoid such losses.

- In **Germany**, individual *Land* governments can only draw down federal funding under the GRW for a project if they provide equal co-financing. Similarly, local authorities can only obtain GRW funding for an infrastructure project if they provide co-financing of at least 10 percent.

- In **France**, the State provides 50 percent co-financing for the state-regional contracts. This approach gives national authorities the opportunity to ensure that national priorities are appropriately reflected in the projects in receipt of support while boosting the participation and commitment of sub-national participants.

- Efforts to integrate different strands of regional development funding at the national level has given national government more funding leverage. For instance, the use of a 'single pot' budget has provided a strong framework for allocating support in line with national-level priorities (e.g. formerly in the **Netherlands** and the **United Kingdom (*England*).**

Contracts, agreements and programmes. There is a strong preference in many national regional policy systems for efficiency measures based on improved coordination and consensus rather than control. These measures include the use of programme frameworks and guidance, contracts and agreements and coordination structures (see Section 7.3). These are 'softer' instruments that can implicitly motivate performance but are not primarily designed for sanctioning or rewarding purposes.

This fits well with the consensual, partnership-based principles of the contemporary regional policy paradigm. For instance, in **France,** the State-Region Project Contracts (CPER) are protocols of political intent with a non-binding character rather than contracts in the strict legal sense. These contracts do not imply any direct consequences regarding the implementation of actions contained in them. A strengthening of their legal position has been resisted because of potential adverse effects in the form of appeals and making partners more reluctant to commit funding.

Moreover, in most regional policy systems there is still a strong equity-based orientation to regional policy. The use of sanctions, particularly applied to actors in less-developed

territories, could run contrary to overall policy priorities and encounter political resistance. In several cases, the enforcement environment is not strong enough to support a robust use of conditionalities, incentives and sanctions. This is clearly the case in federalised or regionalised systems where constitutional status is dispersed across tiers but also in unitary systems where the political status and financial scale of regional policy may not be enough to make sanctions a credible threat. Lastly, contemporary regional policy is a complex field, and the capacity to definitively prove causality and thus support the use of conditionalities is not always present.

7.4.2 Conditionalities

Despite these caveats, the use of so-called 'conditionalities' is gaining momentum in national regional policy systems. Conditionalities are understood as conditions tied to the use of funding, obligating the recipient or beneficiary to meet specified criteria, or ensuring that funding is used in a particular way. Processes of devolution and decentralisation of regional policy implementation and budgets are creating 'principal-agent' dilemmas that demand strong performance management systems. Efforts to integrate a complex range of policy interventions through the territorial lens (as under the 'place based' approach) similarly demand instruments to ensure efficiency and coherence. Moreover, the fact that regional policy budgets are increasingly constrained as a result of the global financial crisis emphasises value for money and efficiency, putting increased emphasis on performance management and control. However, there is no consensus in the literature. Studies demonstrate wide differences among economists and policy-makers on the relationship between conditionalities and programme performance. Some see conditionality as a key element of the relationship between funders and recipients;[178] others regard it as ineffective (arguing that changes in performance are rarely related to conditionality)[179] or even having negative consequences (for legitimacy and fairness)[180]; and, some focus on the implementation problems associated with the use of conditions (such as conflict of objectives, multiplicity of goals, lack of ownership).[181] As a result, conditionalities are being used in national regional policy systems to varying degrees.

Structural conditionalities attempt to capture the relationship between regional policy interventions and the broader socio-economic environment (e.g. impact on labour market). However, the complexity of contemporary economic development policy means that national regional policy systems do not try to capture the contribution of interventions to these broader categories. Rather, they require the recipients of funds to reach certain goals related directly to their own programmes. A key issue here is the nature of the conditions selected and the process of how associated indicators and targets are set. In

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[178] Hopkins R *et al* (1997) The World Bank and conditionality, *Journal of International Development*, 9(4), 507-516.

[179] Killick T (1997) Principals, agents and the failings of conditionality, *Journal of International Development*, 9(4), 483-495.

[180] Raman K R (2009) Asian Development Bank, policy conditionalities and the social democratic governance: Kerala Model under pressure? *Review of International Political Economy* 16(2) 284–308.

[181] Agostino M (2007) World Bank conditional loans and private investment in recipient countries, *World Development*, 36(10), 1692-1708.

several cases, project-level selection processes in regional policy programmes include criteria that relate to the ‘degree of fit’ with overall regional or national strategic objectives and targets.

- In **Germany,** within the national GRW Joint Task, individual *Länder* can introduce additional conditions or incentive systems, for example by varying aid rates in certain locations or for certain types of project, although the broad eligibility rates set by the overarching GRW framework must be respected.

- In **Switzerland**, the federal appraisal of cantonal programmes includes assessments of project selection criteria from a national perspective. Projects under the New Regional Policy are required to be aligned with the priorities of the economic development strategy and focused on innovation and entrepreneurship in export-oriented added-value systems. Projects should also contribute to the strengthening of functional regional centres. Specific conditionalities are outlined for different intervention types. Cantons are responsible for indicator definition for their programmes but this has to be adapted to the requirements of the NRP. Data are gathered at the cantonal level and are periodically sent to the central government agency (SECO) to ensure the comparability of NRP implementation in different regions.

It is clear that for performance-related conditionalities to work, capacity for data gathering and monitoring at national level but particularly at regional and local levels must be strong. This can be seen in the emergence of regional or local statistical observatories in several countries (such as **Poland** and **Portugal**). In **France**, there is a trend towards the greater use of conditionalities in a context of budget constraints (notably at the level of local authorities, where there is an increasing interest in the returns on support provided). The mid-term evaluation of the State-Region Project Contracts has provided an opportunity to check progress and propose modifications, with conditionalities attached. Agreement on proposed changes (such as funding shifts) from the regional state services or local authorities is conditional on the demonstration of clear, up-to-date monitoring data. This move has necessitated the establishment of a coordinating body in the regions which will oversee performance until the end of 2013.

7.4.3 Incentives and sanctions

The third type of performance management system covers incentives or sanctions. These are designed to strengthen performance levers and conditionalities by penalising or rewarding certain levels of performance.

Financial incentives and sanctions refer to the availability of funds based on performance. Performance-related awards may be offered to promote more efficient programme or project implementation. For example, in **Germany**, a bonus system operates so that the usual co-financing rate of sixty percent (which is provided jointly by the federal and *Land* levels) can be raised to up to ninety percent for local authority projects that involve cooperation between local authorities, or are part of a broader regional development strategy. In **Norway**, performance conditionalities have been used at the project level under incentive schemes for many years. For instance, the innovation incentive scheme

provides for a proportion of repayable grants to be converted into a non-repayable grant if the agreed timetable and value of the investment is respected, the share of which is further increased if the agreed economic goals are achieved.

On the other hand, delays, suspensions or cuts in funding can be used to sanction beneficiaries when conditions are not met. In **Italy**, the Government has put in place a number of measures to avoid automatic decommitment under Cohesion policy. Those programmes failing to achieve their commitment and expenditure targets will have their financial allocations reduced.[182] Other conditionalities have been introduced as part of the same package. For instance, programmes that do not fulfil bi-monthly monitoring obligations will have payment of the national (State) portion of domestic co-financing suspended. Conditionalities are one of the key themes of the recently launched national 'Plan for the South', including the introduction of penalties and rewards linked to effective project implementation. More specifically, in **Spain** the regional incentives scheme legislation provides for sanctions to be applied in order to ensure compliance with contractual obligations. Firms must maintain the number of jobs created for at least two years after the end of the term set in the resolution granting the aid. A fine of up to three times the level of the subsidy may be applied where contractual obligations are broken.

A prominent example of a financial incentive is the performance reserve, where funding bonuses are rewarded to the best performing programmes or interventions. This is used in some countries (e.g. **Italy, Poland,**). However, there is caution among regional policy-makers that a performance reserve related to financial progress may lead to a focus on quick rather than strategic spending and a focus on competition rather than cooperation among regions. The performance reserve in **Italy** relates to the entire *Mezzogiorno* and to the achievement of certain levels of essential public service provision in four selected fields (education, child and elderly care, urban waste management and water services) and covers both Cohesion policy and domestic regional development spending. **Poland** has used a performance reserve in Cohesion policy programmes, and there are plans to create a similar 'effectiveness reserve' to improve the performance of the new territorial contracts. The basis for allocating the reserve will be annual strategic reports. Up to five percent of the reserve allocated to the regions can be used as a financial bonus or incentive for staff working in the implementing body. In **Portugal**, a recent decision of the Ministerial Coordination Committee has established a performance bonus in the three Cohesion policy Convergence ROPs to support new business support initiatives.

It is important to note that financial sanctions are rarely, if ever, enforced in regional policy. This illustrates the methodological and political challenges associated with attaching sanctions to conditionalities and the potential for negative behavioural responses. Thus, the approach to sanctions in **Switzerland** is based on negotiation. Obviously, there will be 'clawbacks' of funding if extreme failures are discovered, but there is concern that the use of sanctions would encourage defensiveness and threaten transparency. Thus, multi-annual programme agreements between the federal level and cantons contain

[182] CIPE Deliberation no. 1, 11 January 2011, 'Objectives, criteria and modalities for the programming of the resources for underutilised areas and the selection and implementation of investments for the periods 2000-06 and 2007-13', OJ no. 80, 7 April 2011.

specific information on the financial consequences of non-compliance but they emphasise potential mediation procedures that are seen as the optimal solution to any problems.

Reputational incentives and sanctions. Where regional funding is formula-driven and reflects the economic situation of regions, so-called ‘reputational mechanisms’ tend to be used instead of financial incentives or sanctions. Reputational mechanisms often involve the public or internal reporting of performance data or so called ‘league tables’.

- In **Norway**, there are reputational incentives linked to the use of the funds insofar as the counties must report to the Ministry, which in turn reports to Parliament.

- In **Finland**, the centre of expertise programme is expected to provide information through regular reporting on how targets have been met. The results are consequently linked to future allocation of funding, although each centre of expertise programme is guaranteed a certain basic funding. However, more generally, sanctions have been provided in the form of feedback.

- In the **United Kingdom (*Scotland*),** the management of the performance of the enterprise agencies involves targets and indicators but the main incentive is reputational, with reporting requirements providing an incentive to perform well. Conditionalities exist in the context of ‘Single Outcome Agreements’ governing the delivery of certain outcomes between the Scottish government and local authorities. However, these do not involve financial penalties. The ‘Scotland Performs’ website, which visually demonstrates the government’s progress against targets, is an example of the use of reputational incentives as a performance management instrument.[183]

7.5 Summary

The implementation of regional policy in Europe continues to be in a state of flux. Change is occurring in response to emerging conceptual approaches to regional development, broader administrative restructuring (including as a result of the crisis) and, in some cases, reforms associated with EU Cohesion policy. Changes are taking place within different institutional contexts and at different rates but some basic trends can be identified.

First, there is a widespread effort to identify the optimal territorial scale or scales for regional policy design and delivery. The aim is to develop arrangements that efficiently capture the complex spaces and flows that characterise contemporary economic development. Until recently, this was often associated with regionalisation processes but increasingly policy-makers are concerned with the governance of more complex, trans-local spaces. Second, coordination remains a priority, pursued across administrative levels through delegated or ‘decentralised’ coordination but more often through consensus-based contracts, agreements or partnership structures. Priority is increasingly placed on the coordination of ‘dedicated’ regional policy with sectoral policies. This is part of a growing awareness of the need to integrate all policies that have a territorial impact.

[183] http://www.scotland.gov.uk/About/scotPerforms

Third, for efficiency and accountability reasons, performance management is high on the agenda of regional policy-makers. Arguments for the increased use of conditionalities are gaining momentum. Processes of devolution and decentralisation of regional policy implementation and budgets are creating so-called ‘principal-agent’ dilemmas that demand strong performance management systems. Efforts to integrate a complex range of policy interventions through the territorial lens (as under the ‘place based’ regional policy model) demand instruments to ensure efficiency and coherence. Lastly, the fact that regional policy budgets are increasingly constrained as a result of the global financial crisis emphasises value for money and efficiency, putting increased emphasis on performance management.

To varying extents, EU Member States are exploring conditionalities, incentives and sanctions. Nevertheless, there is a basic paradox surrounding the use of these instruments, a tension that runs through debate on the new regional policy paradigm. This concerns the balance between central direction and local choice. In moving to more devolved decision-making, national governments recognise the logic for incentivising performance, including the use of conditionalities, sanctions and rewards. However, the devolution of priority-setting competences and budgets reduces their ability to use sanctions and rewards to incentivise the delivery of national priorities. This highlights the implicit tension in setting national priorities that are implemented at local discretion. As a result, regional policy systems are developing these instruments with caution – there is a need to ensure sufficient flexibility, capacity and participation, particularly at sub-national levels. A key challenge is establishing levels of trust, based on the development of a robust evidence base, between those sharing management responsibilities.

Table 13: Developments in the governance of regional policy in Europe, 2010-11

Country	Main developments in the governance of regional policy
Austria	Federal system is unchanged: regional development support is mainly implemented at the *Land* level including through business agencies. The main federal bodies remain the Federal Chancellery and the ÖROK, who have mainly a coordinating role.
Belgium	Continuing push for administrative regionalisation, particularly in Vlaanderen. Restructuring of public administration at regional level aims to improve coordination between policy fields (particularly innovation and economic policy). Emphasis on administrative simplification at regional level.
Bulgaria	Centralised approach but self-governing municipalities play an important role in regional policy design and delivery. In 2010, a Development Council established as body responsible for coordination of the programming and implementation of development policy. Tasks include work on long-term national programming documents, including the National Development Programme 2020.
Cyprus	Strongly centralised approach. Key actor is the Planning Bureau, under Ministry of Finance, and Ministry of Interior. Role of local level prioritised in National Strategic Development Plan but progress is modest. Ministry of Interior preparing reform of local government legislation. Aim is to decentralise powers to the local authorities, create larger, more flexible and efficient units.
Czech Republic	Combination of centralised and regionalised approaches. Domestic regional policy managed by Ministry of Regional Development. The Ministry, on the basis of defined methodological guidelines, delineates eligible regions and calls for project proposals. Importance of self-governing regions increasing thanks to EU Cohesion policy: regional authorities engaged in managing regional operational programmes.
Denmark	Decentralisation through role of regional growth fora in 2006. Horizontal coordination boosted by integration of Cohesion policy and domestic funding in the fora. Vertical coordination through active role of local authorities in partnership agreements between central government and the fora. Role of national authorities ensures compliance with Danish and EU regulations.
Estonia	Centralised approach. Minister for Regional Affairs within the Ministry of the Interior coordinates regional policy. Sectoral ministries required to inform of regional impacts of their activities. Subsidiarity principle and administrative burden at central level prompting limited process of decentralisation in resource allocation decisions but sub-national input constrained by lack of administrative capacity.
Finland	Central-level responsible for legislation, strategic overview and monitoring. Recent establishment of regional agencies to work with Regional Councils on implementation. Plans to align agency and council administrative boundaries to facilitate common regional strategies. Plans to reform NUTS II borders. PARAS project reforming service provision and funding of municipalities, mostly through municipal mergers. Kainuu region experiment in self-governance ongoing.
France	Government agency DATAR, responsible for coordination of State-region contracts, moved to dedicated Ministry of Rural Spaces and Territorial Development. 2010 Law on the Reform of Territorial Authorities focuses on ending the existing entanglement of competences, accumulation of structures, increasing complexity of finances and dilution of responsibilities.
Germany	No major changes. Primary responsibility for regional policy lies with the *Länder*. Federal authorities coordinate certain activities across the *Länder* (e.g. relating to the GRW), to provide additional funding to structurally weaker regions, and to mediate with the European Commission on regional aid and on Germany-wide issues relating to Cohesion policy. Specific policies for the new *Länder* are coordinated through broader inter-ministerial mechanisms involving federal & *Land* Ministries.
Greece	Cohesion policy system reformed after 2009 elections. Aim is to increase effectiveness and accelerate spending through simplification, decentralisation and coordination. 2010 "Kallikratis" Plan has launched major revision of regional structures, establishing 13 regional self-governments, seven decentralised administrations. Also aims to decentralise responsibilities; enhance financial autonomy of local authorities; reduce number of municipalities; and, rationalise system of municipality loans.
Hungary	Centralised approach confirmed following 2010 elections. A traditional system of strong central ministries and primary units of administration at county level has produced coordination challenges, fragmentation and weak systems for sub-national representation. Elections have also prompted significant staff turnover in the National Development Agency and intermediary regional agencies, creating delays and weakening coordination.
Ireland	Central government departments and agencies continue to play key role. NUTS 2 regional assemblies are Managing Authorities under Cohesion policy. Recent political changes have resulted in modifications to the names and configuration of some departments.
Italy	Strengthened commitment to regional policy at central level marked by shift in overall responsibility from Ministry of Economic Development to the Minister for Regional Affairs in the Council of Ministers. In 2011, this Ministry also acquired responsibility for two Interregional Programmes for Cultural Attractors and Energy, previously assigned to the Regional Authorities. Government has put in place measures, including conditionalities, to avoid automatic decommitments under Cohesion policy.

Latvia	In 2011, Ministry of Regional Development and Local Government merged with the Ministry of the Environment forming the Ministry of the Environmental Protection and Regional Development. Sectoral ministries and government agencies also have key roles. Reforms in 2009 abolished the district level, and amalgamated smaller local governments, creating new local self governments and cities. The aim is to reduce complexity, strengthen sub-national levels and concentrate resources.
Lithuania	Centralised policy delivery. Reforms of July 2010 abolished county-level administrative units, allocating functions to municipalities and central ministries. Counties remain as statistical units to support implementation. Regional Development Councils (drawn from municipalities), are important sub-national bodies for regional policy making.
Luxembourg	No changes occurred since the start on 2010. Regional aid is delivered by the national government, in particular the Ministry of Economy and Foreign Trade.
Malta	Centralised approach reflects size of country: Malta recognised as region under Cohesion policy. Ministry for Gozo deals specifically with issues related to the Island, including Regional Projects Committee which inputs into the programming process, project selection and monitoring.
Netherlands	Decentralisation has accompanied commitment to reduce scope of government intervention in regional policy. Direct central government intervention and funding for regional policy to be discontinued, responsibility will lie with provinces and municipalities. Ministry of Economic Affairs has been augmented by agri-food and innovation policy functions to become the Ministry of Economic Affairs, Agriculture and Innovation. Within this, a Directorate-General for Environment and Regions created.
Norway	Administrative decentralisation under “Responsibility Reform” *(Ansvarsreformen)*. Counties more involved in funding R&D through research fund regions and a triple-helix approach. Counties now own 49 percent of Innovation Norway. Ministries and have established a Coordination Forum. Interactions between municipalities are being strengthens, particularly in the innovation field.
Poland	New National Strategy for Regional Development strengthens role of Ministry of Regional Development in territorial and sectoral coordination of development policy. Competence of regional self-governments gradually extended, new territorial structures (partnership fora, observatories, investment centres) emerging. Plans to reform territorial contracts between state and regions. Conditionalities, used to improve efficiency. Evaluation important for efficiency and accountability.
Portugal	Cohesion policy framework has centralised elements (target setting and strategic monitoring) and decentralised components (increased funding share to regionally managed programmes and use of global grants). Increased horizontal coordination between Ministries, streamlining sectoral programmes into fewer thematic programmes. In 2010, moves to strengthen role of municipalities in coordination.
Romania	Cohesion policy frameworks drive centralised administration. Moves to decentralise and increase local government responsibilities hindered by lack of capacity and financial resources. NUTS II administrative regions lack legal authority to promote larger scale, inter-county projects. Political divisions hamper cooperation among counties. Territorial reorganisation debated in 2011 but political differences stalling reform process.
Slovakia	Centralised approach. 2010 elections assigned responsibilities of regional policy and Cohesion policy to Ministry of Transport, Construction and Regional Development. Restructuring has delayed approval of new National Strategy for Regional Development and preparations for next Cohesion policy period. New Ministerial Council for Regional Policy has advisory and coordination roles. Concerns that reduced stakeholder representation in Council will limit vertical coordination.
Slovenia	Centralised approach, but debate on creating new intermediate tier. New “Council for the Territorial Balance of Development Initiatives” responsible for co-ordination of development policies that have regional impact. Reforms at regional level give provinces more competences and strengthen connections among them in order to achieve greater efficiency.
Spain	No change although decentralising reforms of regional statutes are progressing. Key actors responsible for regional incentives scheme are General Cabinet Council, the Directorate-General for EU Funds of the Ministry of Economy and Finance and the eligible regional governments.
Sweden	Supervision of regional growth policy by Ministry of Enterprise, Energy and Communications. Agencies of *Tillväxtverket* and *Tillväxtanalys* responsible for administration. Regional implementation by government-appointed boards, municipality associations and a few self-governments. Self-government model being extended. Cross-sectoral coordination through thematic groups, Rural Development Programme, role of regional coordinators responding to crisis.
Switzerland	Under New Regional Policy, federal level responsible for strategic objectives and spatial priorities, cantons have wide scope to define how objectives are achieved, including project selection. SECO confederal agency provides support. New Financial Equalisation provides new coordination framework through multi-annual programmes, programme agreements. Efforts to strengthen inter-regional cooperation through sub-cantonal regional management structures.
United Kingdom	In England, previous delivery framework, based around Regional Development Agencies, being dismantled after recent elections. Centralisation of some policy instruments combined with new focus on local level, particularly through Local Enterprise Partnerships. Increasingly differentiated approaches emerging in Devolved Administrations, ongoing debate on extent of fiscal competences.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

8. EFFECTIVENESS AND EFFICIENCY: RECENT DEVELOPMENTS IN THE EVALUATION OF REGIONAL POLICY

8.1 Introduction

Evaluation is increasingly seen as an important tool to ensure that government interventions maximise their effectiveness, something that is especially important in the current period of budgetary stringency in many European countries. The scale and increasing complexity of regional policy programmes raises questions about their effectiveness and value for money. As the understanding of the dynamics of regional development evolves, regional policy programmes also evolve, and evaluation provides a means for reviewing the impact of changing policy instruments and the effectiveness of new forms of governance on the process.

Although there is a long history of evaluation in some European countries, the prevalence of evaluation in Europe has increased in recent years due to the stimulus from the EU through the requirements of the Structural Funds. Changes to the regulations of EU Cohesion policy in the 1990s required evaluation studies of outputs, results and impacts of programmes at different stages in the policy cycle. This was combined with investment by the European Commission in cross-national evaluations and in the tools and methodologies of evaluation. This European-scale activity has also had spillover effects into domestic programmes, and in many countries the evaluation of the Structural Funds has introduced evaluation techniques for the first time.

This chapter examines the state-of-play in the evaluation culture and the evaluation of regional policies in Europe. It begins by providing an overview of the evolution of evaluation in Europe, noting the institutionalisation of evaluation. This is followed by a review of the current status of evaluation. Lastly, the chapter reviews recent evaluations of regional policy aid schemes, programmes and institutions.

8.2 Evolution of regional policy evaluation

The experience of evaluation differs widely across Europe with some countries having had a long history of evaluation whilst others have only undertaken evaluation studies in the last decade and are still developing evaluation systems and cultures. Although there was a rapid growth and spread of evaluation in the 1980s and 1990s arising from 'the new public management', a number of countries already had quite mature evaluation systems and routinely evaluated the effectiveness and impacts of regional policy and indeed other forms of economic development assistance. **Germany, Netherlands, Sweden** and the **United Kingdom** already undertook evaluations in the 1970s.[184] Some of this early evaluation was highly systematic, with Germany introducing evaluations in 1970 in the form of 'success controls' for all public intervention measures.

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[184] Bachtler J (2008) The evaluation of regional policy in Europe: culture, commitment and capacity. in K Olejniczak, M Kozak and B Ledzion (Eds.) *Teoria I Praktyka Ewaluacji INterwenji Publicznych (Theory and Practice of the Evaluation of Public Policy)*, Warsaw: Wydawnictwa Akademickie I Profesjonale, 60-83.

Since the 1980s and 1990s, as part of an increasing focus on accountability, evaluation has spread more widely across Europe. The institutionalisation of evaluation can be measured according to a number of dimensions.

- **Evaluation units** have been set up within government to either undertake or commission evaluation studies and to develop guidelines for use within such studies.
- Many governments have been formally **building evaluation into policy cycles** with evaluation at different stages, ex ante, ex post, and continuous, and with a formal requirement that the results of evaluation should feed into programme reviews.
- A better understanding of the benefits of evaluation has been stimulated through the publication of **evaluation reports** that show the findings as well as explaining the methods used.
- **Evaluation societies** have been created in a number of countries to promote the discipline of evaluation across policy domains, as well as supporting the growth of new evaluation journals, discussions and the dissemination of standards and guidelines.
- **Research on evaluation methods** has been sponsored by governments and particularly by the EU.

The European Commission has provided a stimulus for evaluation through the Structural Funds and the requirements for evaluation of both direct expenditure such as research funding or TENS and indirect expenditure such as CAP and EU Cohesion policy. The outcomes of these pressures are clear in the practices of many countries with little tradition of evaluation, in that evaluation has been introduced for EU programmes and has gradually spread into domestic programmes. However, the differing pace of diffusion of evaluation principles and methods has resulted in there still being great differences across Europe. Some of this variation appears to be due to national administrative cultures, with Anglo-Saxon countries being more receptive to evaluation and with longer-standing traditions. Several countries in Southern, Central and Eastern Europe tend to have had less experience of evaluation and are hence only slowly developing appropriate systems, beginning with those put in place for EU Cohesion policy.

8.3 Current experiences of evaluation in Europe

Current national experiences of the evaluation of regional policies can be grouped into three categories, based on the prevalence and experience of evaluation: (a) embedded – where the evaluation of domestic regional policy is regularly used as part of the policy design or implementation process; (b) evolving – where the evaluation of domestic regional policy is emerging, building on experience gained with EU Cohesion policy; and (c) externally induced – where the evaluation of domestic regional policy is limited, and evaluations are mainly conducted under EU Cohesion policy. A categorisation of European countries on this basis is shown in Table 14. Details of evaluation activity under both domestic regional policies and EU Cohesion policy are listed in Table 15 and Table 16.

Table 14: Intensity of regional policy evaluation

Embedded		Evolving	Externally driven	
Austria	Italy	Cyprus	Bulgaria	Luxembourg
Belgium	Netherlands	Czech Republic	Estonia	Malta
Denmark	Norway	Poland	Greece	Portugal
Finland	Sweden	Slovakia	Hungary	Romania
France	Switzerland		Ireland	Slovenia
Germany	United Kingdom		Latvia	Spain
			Lithuania	

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

8.3.1 Embedded culture of evaluating domestic regional policy

In most EU15 Member States, the evaluation of regional policy is relatively common practice. In some cases (**Germany, Netherlands, United Kingdom**), this reflects a long-term tradition of public policy evaluation, in others (**Austria, Finland** and **Italy**), the development of an evaluation culture was accelerated through Europeanisation, in particular through the implementation of EU Cohesion policy. In **Italy**, for example, evaluation was to become a core aspect of the unitary regional policy foreseen by the 2007-13 NSF and is a key component of the recently approved Plan for the South. The Plan emphasises a results-orientation and foresees strengthened evaluation procedures for a number of its strategic priorities. This emphasis on evaluation is instrumental to the intention to establish more binding conditionalities linked to the use of public resources that will be specified in the new 'institutional contracts'.

Outside the EU, the application of evaluation in the regional policy field is also widespread in **Norway**, which has a strong evaluation culture with more or less continuous evaluation embedded in the policy regime, and in **Switzerland**, where evaluation has been institutionalised in public policy since the mid-1990s.[185] Under Swiss regional policy specifically, policy changes were increasingly informed by research and evaluation evidence from the 1980s.[186] However, it was only towards the end of the 1990s/early 2000s that evaluation became an integral part of regional development and planning.[187] With regard to the present policy cycle, on the one hand the content of the NRP has been informed by the evaluation recommendations of the preceding Regio Plus initiative and pilot projects, whereas on the other hand the evaluation of the NRP is required by the Law on Regional Policy, largely conceived as an ongoing process.[188] The future continuation of the Plan will be linked to such evaluation evidence.[189]

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[185] Thierstein A and Behrendt H (2001) *Überprüfung der Zielerreichung der Schweizer Regionalpolitik*, Staatssekretariat für Wirtschaft, SECO, ETH, Zürich.

[186] Schweizerischer Bundesrat (1996) *op. cit.*, pp. 1110-1111.

[187] Pollermann K (2007) Prozessintegrierte Evaluationen zur nachhaltigen Regionalentwicklung, *disP*, 169, 2007(2), pp. 68-79.

[188] Steinemann M *et al* (2007) *Evaluation der Pilotprojekte Neue Regionalpolitik*, Final Report, Staatssekretariat für Wirtschaft, SECO, Infras, Zürich.

[189] The Federal Council is responsible for the scientific evaluation of the programme and for reporting to the Parliament after eight years. This will serve as a decision-making basis regarding the continuation of the NRP. In addition, the policy reports prepared by the Federal Council (*Botschaften*)

8.3.2 Evolving culture of evaluating regional policy

In a small group of EU12 Member States – **Cyprus, Czech Republic, Poland** and **Slovakia** – evaluation has still a rather limited role in public policy (and regional policy specifically), but an evaluation culture is gradually emerging.

In **Cyprus**, for example, the Planning Bureau is set to undertake regular evaluations on the different budget lines that compose the medium-term budgetary framework, to ensure that the objectives set by each Ministry area are achieved as planned, i.e. within time and budget.

Similarly, in **Slovakia**, in 2009, the Ministry of Finance introduced the system of evaluation of the State budget, which established that all budgetary chapters have to be regularly evaluated. To this end, the Ministry of Finance has introduced a system of monitoring and evaluation of public funds to enable result-oriented budgeting and public finance management. Each new budgetary component to be included in the State budget is evaluated ex-ante and then, during the period 2010-14, all existing budgetary components (programmes and sub-programmes) will be subject to ongoing evaluation. Thereafter, ongoing evaluation will be performed every four years. Although this development represents a major improvement on past practice, it presents a challenge for the evaluation of regional policy, in that EU Cohesion policy programmes in the State budget structure are included as separate budgetary components, and the new framework does not foresee any means to coordinate the evaluations carried out within the framework of EU Cohesion policy and those carried out under the new public finance management system.

In **Poland**, evaluation has been strongly embraced as part of the system for managing and implementing EU Cohesion policy, going well beyond the regulatory requirements, as exemplified by the range of ex post evaluations undertaken on the 2004-06 programmes (see Box 11). There is also considerable investment in developing an evaluation culture beyond EU Cohesion policy, through investment and activity (training, conferences, studies etc) on both the demand and supply sides of the evaluation market.

usually contain detailed sections on policy effectiveness based on available studies and evaluation evidence; related findings are linked to decisions taken for the future of the policy (Schweizerischer Bundesrat (2011) *op. cit.*). This is in line with the ambition to carry out evaluations early on so they can influence the development of future policies.

Box 11: The ex post evaluation system of the 2004-06 Polish NDP

Poland is now completing an ex post evaluation of its National Development Plan for the 2004-06 programme period. This has been a comprehensive exercise with 14 studies and a meta-evaluation. They are listed below with some of the key conclusions.

Macro-economic impact of Cohesion policy (at national and regional levels). On average, during the period from 2004 to 2009, GDP growth dynamics increased by 0.5-0.7 percent as a result of the inflow of funds. In 2009, the impact of EU support on economic growth became more visible than previously (around 50 percent of the positive GDP growth in Poland resulted from the inflow of the Structural Funds). The impact is predicted to be strongest in the period 2012-2014.

Evaluation of the benefits drawn by EU15 countries as a result of Cohesion policy implementation in Poland. This research argued that the EU15 countries benefit from EU Cohesion policy implementation in Poland. Germany - the biggest trade partner for Poland – was the most significant benefactor (with c.€16 billion additional exports to Poland). For each euro, spent on Cohesion policy in Poland, the EU15 countries gained a net benefit of €0.46 on average, with the German economy gaining €0.85. Further, EU Cohesion policy was found to be stabilising EU economies – its effects were said to be virtually immune from the occurrence and depth of economic crises.

Sectoral analysis of expenditures within NDP 2004-2006 and their impact on sectoral changes of Polish economy (demand-side analysis). According to this research, newly generated demand by Cohesion policy constituted two percent of global production between 2004 and 2008. Demand generated by project implementation resulted in a 29 percent increase in construction production, 15 percent increase in the processing sector and a 4-8 percent increase in the volume of production in other sectors. Newly generated demand was significant in the case of innovative branches and constituted up to 2.6 percent of their global value between 2004 and 2008. This increase was found to be higher in less-developed regions.

The effects of transborder cooperation of the regions. Interreg IIIA achievements in Poland are comparable to the attainments of other Interreg programmes in Europe. Expenditure on Interreg IIIA programmes in Poland was not high enough to produce a visible impact on the main development indicators. Investment projects had the highest impact on reducing peripherality and increasing the quality of life in border areas. However, they did not generate a direct transborder effect. 'Soft' projects had a significant impact on reduction of barriers in socio-cultural integration of the societies on both sides of the border. Micro-projects significantly affected the creation of permanent structures and cooperation habits by encouraging partnership of institutions and organisations in common projects implementation.

Complementarity and synergy of interventions implemented from ESF and ERDF funds in perspective 2004-2006. The concepts of complementarity and synergy were not sufficiently defined and understood (55 percent of respondents were able to define complementarity correctly, but only 19 percent could define correctly concept of synergy.). From a sample of 1,000 projects, fewer than 100 were identified as complementary. Projects declared as complementary statistically more often achieved better results and planned indicator values (15 percent more projects than those that were not complementary).

Other ex post evaluations included: the mechanisms of strategic management at the regional level (focusing on the Integrated Regional Operational Programme 2004-2006); the impact of Cohesion policy on the level and quality of employment in Poland; an ex post assessment of the impact of Cohesion policy 2004-2006 on increasing abilities of social and economic development of eastern Poland regions; transport accessibility impact assessment; the impact of environmental investments financed within NDP 2004-2006; evaluation of Cohesion policy implementation system in Poland in the 2004-2006 period; the impact of Cohesion policy support on competiveness and innovativeness of Polish enterprises and economy; impact evaluation of transport projects on improvement of the competitiveness of regions; impact on the development of Polish cities; and evaluation of ESF interventions' impact on the increase of human resources quality.

8.3.3 Externally induced culture of evaluation

In other **EU12 Member States,** and also in **Greece, Ireland, Portugal** and **Spain**, evaluation remains largely confined to EU Cohesion policy, although there has been extensive application of evaluation of Structural and Cohesion Funds (as illustrated in Table 16) going beyond regulatory compliance.

One example is **Portugal**, where government authorities have adopted a pro-active approach to evaluation since the early 2000s, with more evaluations being undertaken than were required by the EU Cohesion policy regulations. An ambitious plan has been adopted also for the 2007-13 programme period, encompassing a wide range of thematic and operational evaluations in accordance with the new needs-based and flexible approach allowed for by the new Structural Funds regulations.

Only in a small group of countries - **Bulgaria, Estonia** and **Luxembourg** – is there very limited used of evaluation. In **Bulgaria**, evaluations of the effectiveness of regional policy interventions were undertaken for the first time in 2010-11. In **Luxembourg**, evaluation has largely been lacking, with the sole exception of the ex ante programme evaluation of co-funded programmes. In **Estonia,** 'evaluation' is limited to the monitoring of four high-level indicators relating to population, GDP, employment and average income. The collection of county-level data to monitor progress relating to regional policy targets is the only evaluation undertaken apart from some programme/project-level evaluation of outputs, and there is rarely any kind of corrective action undertaken as a result of this evaluation.

8.4 Approaches to evaluation

By nature, the use that is made of evaluation in such a vast range of countries varies not just in intensity, but also in scope. An impression of the scope and approaches to evaluation can be obtained from studies undertaken in recent years or are underway/planned under domestic regional policies, and similarly (in Table 16) under EU Cohesion policy.

Evaluation may involve assessment of entire policies, programmes, specific instruments or individual projects and of operational or institutional aspects linked to implementation.[190] Programme-wide evaluation is an approach that was encouraged by the European Commission until 2006, which in some cases permeated the domestic evaluation practice of Member States. Programme-wide evaluation of domestic programmes can be found in **Denmark** – where each Regional Growth Forum has been evaluated - and **Finland**, where the main domestic programmes – Regional Centre, Centre for Expertise, Rural and Islands programmes – have been evaluated ex post or at mid-term stage. However, domestically, the evaluation of single instruments is sometimes preferred (e.g. **Belgium** (***Vlaanderen***) or carried out in addition to programme-wide or policy-wide evaluation (e.g. in **Germany, Netherlands** and **Switzerland**). Increasingly, however, and again in line with developments in the EU Cohesion policy regulatory framework, evaluation appears to be organised thematically, so as to test specific policy assumptions or gauge the effects of policy on specific fields (e.g. in **France, Germany, Sweden** amongst others).

Evaluations can of course cover not just the content of policy (and the related achievements) but also the institutional channels and operational mechanisms through which policy is delivered. This type of evaluation is particularly predominant in the context of Cohesion policy – e.g. in the **Czech Republic, Portugal** and **Romania** - but Table 15

[190] Polverari L and Bachtler J (2004) *op. cit.*

indicates a number of examples of this type of evaluation in the context of domestic policies, for instance: in **Belgium** (***Vlaanderen)*** - evaluation of the Business Angels Network); the **Netherlands** and the **United Kingdom** (***England***) - where evaluations have been conducted of regional development agencies; **Norway** - Innovation Norway and county-level governance evaluations; and **Sweden** - evaluations on business advice, resource centres for women, operation of regional actors in the growth area, and regional internationalisation work.

8.5 Case studies of domestic regional policy evaluations

The 2010-11 period has been an active year for evaluation activity. In most cases, this relates to the evaluation of EU-funded interventions, but in many countries, there have been evaluations of domestic regional development programmes, measures or institutions. The most salient studies and their main conclusions are summarised in the following sections.[191]

8.5.1 Case studies - comprehensive policy evaluations

Examples of comprehensive policy evaluations can be found in: **Poland** – where the whole 2004-06 NDP, in its various components and aspect, has been evaluated ex post, as illustrated in Box 11 above; **Latvia**, where the government also carried out an ex post evaluation 2004-06 support; and in the **Czech Republic**.

In the **Czech Republic**, a mid-term evaluation of the 2007-13 Regional Development Strategy (RDS 2007-2013) was undertaken in later 2009 at the request of the Ministry of Regional Development. The purpose was to provide a detailed analysis of regional development trends and a thorough review of the contribution of regional and national support programmes to the objectives of the RDS 2007-2013, and to undertake a thorough review of the contribution of EU Cohesion policy implemented in the Czech Republic towards fulfilling the objectives defined in the RDS.[192] The evaluation confirmed that the coherence between the RDS 2007-13 objectives and thematic targeting of the OPs is very high (particularly in the priority areas of Infrastructure, Environment, Regional Economies, and Population and Settlement). It also suggested that every OP is contributing to the RDS 2007-13 goals, estimating that 77 percent of the 2007-2013 financial allocation of the Structural Funds and Cohesion Fund (i.e. €22.4 billion) might contribute to fulfilling the RDS 2007-2013.

In addition, the evaluation noted that the RDS 2007-13 has limited support from domestic national/regional ‘sectoral’ programmes, mainly due to the insignificant level of funding in comparison with the resources provided by EU Cohesion policy. Further, the national regional policy programmes, even though in principle in line with the policy’s stated objectives, bring about only a marginal contribution to cohesion, i.e. to the fundamental

[191] For further information, see the country chapters in *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

[192] BermanGroup *et al.* (2009a) *op. cit.*

objective of current Czech regional policy. The respective part of the evaluation is based on information provided by particular ministries and authorities of self-governing regions, especially information on ministerial/regional programmes that were declared by the respective public authorities to have relevance for, or to contribute to the fulfilment of, the RDS 2007-2013. Consequently, the evaluation attempted a form of territorial impact assessment to assess the regional impact of the most important sectoral policies, i.e. it tried to assess the contribution of sectoral policies (including a narrow regional policy) to territorial cohesion. However, the overview of national/regional programmes was far from uniform, and hence the assessment was also rather elusive.[193] In summary, the evaluation[194] argued for greater coordination among individual public interventions and their higher synergy with regional goals and needs.

The ex post evaluation in **Latvia** comprised three separate evaluations of the results and impact of EU-funded investments in the fields of support to business, and education and science, during the 2004-2006 programming period. Together, these three themes accounted for just over 50 percent of the entire Structural Funds allocation during the period.

Among the main conclusions of the study on the evaluation of business support, the evaluation found that proportionally the largest share of financing was received by businesses from the capital city Riga region, which received approximately 60 percent of total EU financial support and mostly in the form of projects larger than elsewhere in the country. The remaining 40 percent of resources were distributed equally among the rest of Latvia's regions (Latgale, Vidzeme, Kurzeme, Zemgale). In general, the amounts received by each region correspond broadly to the number of enterprises in the region.[195]

Some of the most relevant conclusions of the study on employment are as follows.[196] First, during 2004-2009, the State made successful socio-economic investments in the promotion of employment and social inclusion – in monetary terms in 2004 investing almost €427 million which (over the period to 2018) are foreseen as returning almost €1,423 million. Second, the financing via EU Structural Funds supported approximately a quarter of the economically-active inhabitants or more than 290,000 people. Third, the largest impact of EU Structural Funds financing was among the unemployed – during 2004-2009, training was provided for more than 54,000 of the general unemployed and newly self-employed, and nearly 26,000 of unemployed from the social risk groups.

The Latvian Government has also recently launched a tender for the mid-term evaluation of the 2007-13 National Strategic Reference Framework. This will be organised in four

[193] Macešková and Blažek (2010) *op. cit*.

[194] BermanGroup *et al*. (2009a) *op. cit*.

[195] Ex post evaluation„EU Structural Funds Implemetation to support Business Development Evalation 2004.-2006 , p. 92, SIA „Baltijas Konsultācijas" http://www.esfondi.lv/page.php?id=90616.07.2011

[196] In May 2011 Managing Authority organized the International conference where the outcomes of the ex post evaluations were presented to broader audience and discussed with the experts of evaluated policy fields, policy evaluation practitioners, academicians, project beneficiaries and invited representatives from the European Commission, Managing Authorities of Estonia and Lithuania.

thematic lots - overall analysis, active labour market measures, macroeconomic stability, and effectiveness of communication measures - and should be finalised in December 2011.

8.5.2 Case studies - evaluation of domestic regional policy investment programmes

In **Finland,** three domestic regional policy programmes - the former regional centre programme[197] (including the urban programmes of the region of Uusimaa in the south), the rural programme (regional component),[198] and the island programme (national and regional components)[199] were the subject of ex post evaluation. The ex post evaluation of the regional centre programme focused on regional organisation within the programme, regional leadership, results and impacts at the regional level, as well as on strategy and networks. The findings indicated that the key impact of the programme was the development of regional strengths and expertise. The programme succeeded in setting up new projects, which subsequently received further funding from other sources. The evaluation also noted that the programme has lacked an appropriate monitoring system, which would have enabled the evaluation of regional projects and their results and indirect impacts. Similarly, there were no indicators to measure the results of the regional activities. Consequently, the evaluation of the activities and their impacts was challenging both for the regions and for the evaluation team. Although the programme was a flexible instrument in terms of supporting regional development, the evaluation remarked that it should have had clearer targets that could have been monitored at both regional and national levels.[200]

The ex post evaluation of the regional component of the rural programme focused on the strategic nature of the programme, its organisation, networks, results and impacts. The evaluation concluded that the impacts of the programme were primarily qualitative, as the concrete results and impacts related largely to the increase in networking and cooperation, preparation of strategies, reports and project activities. Overall, the impact of the programme was weakened by the short implementation period, as the time available for implementing interventions to meet targets was not always adequate. The top-down targets for the programme did not necessarily meet the needs of the regions, and as such

[197] The regional centre programme was the government's special programme that aimed to strengthen the network of regional centres covering the country.

[198] The regional component of the rural programme was aimed at rural areas that were not part of the regional centre programme, the urban programmes of the region of Uusimaa or located in the capital area or on the island of Åland.

[199] The island programme aimed to provide ways of utilising islands, sea, lakes, rivers and the coastline to promote regional development in the islands, coastal areas and water areas. The broader part of the programme was focused on the entire country, while the narrower part was focused on those island areas that were included in the Government Act on island municipalities and island parts of municipalities. As already noted, the island programme and the regional component of the rural programme were merged with the new cohesion and competitiveness programme (KOKO) at the start of 2010.

[200] Mäenpää M, Niemeläinen J and Pesonen P (2010) *Aluekeskusohjelman ja kaupunkiohjelmien ohjelmakauden 2007-2009 loppuarviointi*, Evaluation report to the Ministry of Employment and the Economy, 46/2010, August 2010.

they resulted in a certain lack of commitment, particularly with respect to engaging the business sector.[201]

The ex post evaluation of the island programme focused on the programme's strategic nature, organisation, targets, impact and added value. Programme impact was assessed as good in relation to the available resources, and overall the programme was regarded as important, particularly with respect to safeguarding the transport connections within the island areas and highlighting landscape and nature values.[202] However, given the co-existence of other factors in addition to the programme that affected the island municipalities, the evaluation was unable to provide more specific insights on the programme's impact on the island communities.

Collectively, these evaluations point out the challenges in terms of evaluating the effectiveness of regional policy programmes. The recurring problem is that final impacts can frequently only be assessed in the long term, if at all. Furthermore, it can be difficult to exclude the impact of an individual intervention or a programme in relation to the final results. The key problem in this respect relates to the limitations of the monitoring system and the unclear targets. It remains to be seen how the new cohesion and competitiveness programme, which will be evaluated later this year, will address these issues.[203]

Another example of the evaluation of domestic regional policy programmes, this time in synergy with the evaluation of EU Cohesion policy programmes, can be found in **France,** where the regions undertook (in 2010) a combined mid-term evaluation of their Structural Funds programmes and State-region contracts. The whole exercise was coordinated and overseen by the National Evaluation Body (INE) set up in 2008 and jointly managed by DATAR and the Association of French Regions. The evaluations tended to comprise a mix of traditional mid-term approaches and more thematic approaches. Compared to 2000-06, they were characterised by a strengthening of quantitative aspects, benchmarking and appreciation of forward-looking elements. The evaluations found that it was still too early to gain insight on effectiveness because the programmes had started late. Cross-cutting working groups are in charge of validating and prioritising recommendations and related implementation measures.

8.5.3 Case studies - evaluation of the effects of policy in specific target areas

In **France**, an evaluation of support available in rural renewal zones (ZRR) was carried out in November 2009 with the following objectives: to provide a quantitative overview of

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[201] Ponnikas J, Korhonen S, Mustonen V, Ålander T, Sillanpää K and Kytölä L (2010) *Maaseutualueet kansallisen ohjelmapolitiikan kohteina, alueellisen maaseutuosion ohjelmakauden 2007-2009 loppuarviointi*, Evaluation report to the Ministry of Employment and the Economy, 52/2010, September 2010.

[202] Vuorela M, Haila K, Auri E and Godenhjelm S (2010) *Saaristo-ohjelman ohjelmakauden 2007-2009 loppuarviointi'*, Evaluation report to the Ministry of Employment and the Economy, 30/2010, June 2010.

[203] Antikainen J (2010) Aluekehittämisen erityistoimet tukeneet alhaalta-ylös –kehittämistä, *Alueintegraattori,* Ministry of Employment and the Economy, 2/2010.

measures as well as their impact on employment and rural development; to identify obstacles to the use of the instrument; and to assess the adequacy of the zoning. The evaluation considered mainly financial data provided at different levels. The zoning approach was found to be useful, particularly for isolated areas with low population density. However, employment effects could not be determined, because final beneficiaries of tax exemptions could not be identified.[204] The evaluation therefore recommended adapting the information collection system in future.[205] As a direct consequence of the evaluation, the scheme was subsequently adapted to include support to firm transmissions and reuptakes.

8.5.4 Case studies - evaluation of regional aid schemes

In **Germany,** the Federal Ministry for the Economy and Technology has commissioned two studies on the Joint Task for the Improvement of Regional Economic Structures (GRW), one on business aid and the other on support for infrastructure. The first was published in October 2010 and involved a micro-econometric impact analysis of GRW funding on individual firms, comparing the development of funded firms with non-funded firms with similar characteristics (matching analysis).[206] The study focused on over 23,000 firms, or 90 percent of those funded in 1998-2008, and found that employment and wage levels grew more strongly in funded firms than in non-funded firms. The study also proposed a methodological approach for regularly updating this study in future.[207]

In the **Netherlands**, a notable evaluation of a regional policy aid scheme was conducted in 2009: the study of the (now-abolished) centralised IPR, regional investment premium, which fell under the Regional Investment Projects Subsidies Decree (*Besluit Subsidies Regionale Investeringsprojecten,* BSRI).[208] The evaluation reviewed 47 projects in receipt of €151 million of subsidy over the 2003-08 period and involved a mixture of desk research and interviews with policymakers and businesses. The focus was on the usefulness and efficiency of the scheme, looking in particular at its goals, relevance, efficiency and effectiveness. Until 2006, the scheme had different goals in the north (where it aimed to promote economic development and reduce disparities) and South Limburg (where it was viewed essentially as a defensive measure to ensure that there was a level playing field in terms of regional aid with neighbouring locations in Germany and Belgium). Post 2006, with a more limited aid map and reduced aid ceilings – and also given a more positive economic

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[204] In addition, an academic study using an econometric approach concluded that the measures applied in the ZRR are ineffective in terms of job and firm creation; see Lorenceau, A. (2009) *L'impact d'exonérations fiscales sur la création d'établissements et l'emploi en France rurale : une approche par discontinuité et régression*, Working Paper no. 2009-54, Paris School of Economics.

[205] Daniel C (2009) *Evaluation des mesures en faveur des zones de revitalisation rurale (ZRR).*

[206] Bade F-J and Alm B (2010) *Evaluierung der Gemeinschaftsaufgabe ‚Verbesserung der regionalen Wirtschaftsstruktur' (GRW) durch einzelbetriebliche Erfolgskontrolle für den Förderzeitraum 1999-2008 und Schaffung eines Systems für ein gleitendes Monitoring*, Dortmund.

[207] The second study is still ongoing and aims to provide recommendations on methodological approaches that could be used for evaluations of the impact of GRW infrastructure projects. This study will be completed at the end of 2011 and, depending on results, may then be followed by a study on the effects of GRW funding for infrastructure.

[208] Ecorys Nederland BV (2009) *Evaluatie BSRI Periode 2003 t/m 2008*, Eindrapport.

development performance in the north - the level playing field argument was also applied in the north. The scheme was seen as useful for raising the inward investment profile of the Netherlands, although support was obviously limited.

The evaluation concluded that the effects of IPR support were minor when set against overall investment within eligible areas, with limited scope to contribute significantly to reducing regional disparities. While it was a factor in some location decisions, the influence was not decisive, and recipients of IPR support were relatively well-anchored within their regions. Lastly, the evaluation noted that the IPR contributed relatively little to the *Peaks in the Delta* approach and philosophy (although the point was made that this was not one of its explicit objectives), and that the scheme might be more effective if its discretionary criteria were replaced by more transparent conditions.

8.5.5 Case studies - evaluations of the institutional and implementation arrangements for regional policy

In the Netherlands, in anticipation of the expiry of the four-year plan period of the four Regional Development Agencies (ROMs) at the end of 2010 the Ministry of Economic Affairs (the major shareholder of the ROMs) has decided to evaluate the past three years in order to prepare for a future multi-annual plan period. The evaluation also attempted to assess the efficiency and effectiveness of ROMs as an instrument of regional economic policy for the period 2007 to 2009. The report was expected to be made public on the 4 August 2010. The general conclusion were that the ROMs – and therefore also the BOM – had generally met (or would meet)their targets for 2007-10. In addition, the ROMs were regarded as important and valued partners for regional businesses, universities, chambers of commerce. employers' organisations and municipalities. Although adding value, the evaluation noted organisational difficulties and some duplication of activities, with scope for efficiency improvements.

An evaluation of Regional Development Agencies (RDAs) was also undertaken in the United Kingdom (England), commissioned by the Department of Business, Innovation and Skills in 2009, to establish the impact of the RDAs in three thematic areas: business development and competitiveness; regeneration through physical infrastructure; and people and skills.[209] It focused on mapping RDA expenditure, determining outcomes and impacts associated with the net outputs, and assessing value for money. The report was based on the examination of over 250 evaluations commissioned by the RDA network. Many of these evaluations sought to estimate the impact of RDA spending on regional gross value-added (GVA). The basis of these estimates was found to be inconsistent, however, for example in terms of the time-period covered, or the treatment of potential future benefits. To estimate the potential impact of RDA spend on GVA on a consistent basis, the report estimated the impact on GVA arising from net jobs created and safeguarded, as this was the most frequently estimated net output measure. Achieved jobs were considered separately from future potential jobs. To convert the estimated number of jobs created and safeguarded into a stream of benefits, the report made a set of assumptions regarding the key

[209] PWC (2009) *Impact of RDA Spending*, DBERR, March 2009.

parameters determining the profile of benefits, including, for example, the period over which RDA spend occurs before any benefits are realised, the period over which benefits are assumed to build up before reaching their full expected potential, the persistence of the benefits, and the rate at which the benefits diminish over time. The analysis generated three different estimates of impact on GVA: annual achieved GVA; cumulative achieved GVA; and total achieved and future potential GVA. The sensitivity of the evaluation findings were then examined against the various assumptions made.

The evaluation found 'credible evidence that all RDAs had generated regional economic benefits which exceed their costs', particularly if future potential benefits were taken into account. However, it also concluded that the picture was varied. Business support programmes and projects were noted for having already achieved regional benefits in excess of costs, but other fields of intervention had not yet achieved regional economic benefits in excess of their costs. The point was made, however, that the majority of these other fields had the potential to do so if the expected benefits arose. The report did not make recommendations, but it did find that there were still inconsistencies in the way evaluations were being carried out across the regions. Several RDAs commissioned follow-on evaluation work after the PWC report, for example in North-East England, the RSA ONE North East commissioned an external evaluator to 'extend and augment' the analysis of impacts presented in the national-level evaluation by taking reasonable account of the likelihood of future benefits and persistence of benefits.[210]

In **Norway**, the government recently commissioned both an assessment of the governance of regional development at county level and an evaluation of the performance of Innovation Norway, the agency that administers the main aid scheme on behalf of the ministry for regional development and the counties. The first focused essentially on how the county level administers the funds allocated to it and concluded that, while the counties were good at processing applications, the level of risk assessment was generally not adequate and nor was the level of understanding of the guidelines on spending issued by the ministry. The second study considered Innovation Norway's activities as a whole, i.e. not just in the field of regional development,[211] but has potentially significant implications for the regional orientation of policy.[212] In particular, the report was critical of the lack of clarity in the connection between Innovation Norway's goals and policy instruments. It argued that the management of the funds should be based to a much greater extent on block funding than detailed control as at present, and that a greater proportion of the funds should be used to support projects involving innovation of national or international standing, with a larger share of the funds being made available in the central regions. It also observed that business development activities related to regional conditions have been emphasised through an increase in the funds available to this end. However, the report argues that the

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[210] SQW Consulting (2009) *ONE North East Impact Evaluation Follow-Up Analysis*, Stage One report, 24 February 2009.

[211] It is important to recall here that Innovation Norway, though now 49 percent owned by the counties (the remainder by the Ministry of Industry), operates policies on behalf of the ministries of industry, tourism and agriculture, among others.

[212] Available at: http://www.regjeringen.no/nb/dep/nhd/pressesenter/pressemeldinger/2010-2/--innovasjon-norge-skal-bli-enda-bedre.html?id=612405 (accessed 1 June 2011).

level of innovation in innovation-oriented projects in the regional development 'sub-goal' is too low to contribute to regional value-added. In consequence, the report recommends that policymakers consider abolishing the geographical earmarking of funds in the future.

A comprehensive evaluation, which looked predominantly at institutional issues, was recently completed also in **Sweden**, by *Tillväxtanalys* in cooperation with the Ministry of Employment, Energy and Communications and submitted to the Ministry in May 2011. The study considered issues such as how the different regional actors operate in the growth area, what resources are used, how the different actors (at the central, regional and local level) cooperate with each other and how the regions work with international questions.

Among the evaluation's conclusions were findings that: weak political unity was a key factor inhibiting growth, especially in rural municipalities; there is an increasing need for local and regional actors to develop policy responses tailored to the conditions of individual municipalities or regions; and it is difficult to measure the complex range and volume of resources in support of socio-economic development, particularly at the municipal level. The research also confirmed that the level of trust between citizens/entrepreneurs and civil service organisations is higher when growth rates are high and that, overall, both regional and municipal representatives perceive the regional development and growth programmes (at local and regional levels) as important for an area's development. From a regional perspective, regional development programmes are perceived as most important. Furthermore, the evaluation found that municipalities and regions agree to a large extent on the priorities for regional growth activities, and that despite the increase in cooperation with neighboring municipalities, in many municipalities the cooperation remains very local. There is thus potential to develop cooperation over larger areas both inside and outside the country.

Under EU Cohesion policy, a notable evaluation was conducted in **Lithuania** on the effectiveness of the planning and implementation system of regional projects,[213] commissioned in 2009 by the Ministry of Interior. The ultimate goal of the evaluation was to contribute to the enhancement of the planning and implementation system of the projects financed by Cohesion policy during the current policy phase. The evaluation considered the relevance of the domestic administrative system, frameworks and other aspects of the Lithuanian system that affect the effectiveness Cohesion policy delivery. The study found that the role of the Ministry of Interior as coordinating body was limited for the measures entrusted to Implementing Bodies due to the way the role of these bodies is framed in the national legislation governing the administration of Cohesion policy. Similarly, the aim to involve the regions (through regional development councils) in the planning, management and implementation phases of EU Cohesion policy has been hampered by the centralised public administration structure.

Conclusions and recommendations of the evaluation focus on various dimensions and elements of the system to be improved and proposals laying grounds for greater

[213] BGI Consulting (2010) *Evaluation of The Effectiveness of the Planning and Implementation System of the Regional Projects*, Ministry of the Interior, Vilnius.

effectiveness of the planning and implementation system of the regional projects. The recommendations have determined some changes in the legal regulation of the implementation process for the current policy phase, whilst some will be of use in the next policy phase (2014-20).

8.6 Summary

Evaluation is increasingly seen as an important tool to ensure that government interventions maximise their effectiveness. The experience of evaluation differs widely across Europe, with some countries having had a long history of evaluation whilst others have only undertaken evaluation studies in the last decade and are still developing evaluation systems and cultures. Over the past 2-3 decades, evaluation has spread more widely across Europe. The institutionalisation of evaluation can be measured according to a number of dimensions: the creation of evaluation units; building evaluation into policy cycles; the number of evaluation reports produced; the creation of evaluation societies; and research on evaluation methods. The European Commission has provided a stimulus to evaluation through the regulatory requirements relating to ex ante, mid-term and ex post evaluation of EU Cohesion policy.

Current national practices relating to the evaluation of regional policies can be grouped into three categories, based on the prevalence and experience of evaluation: (a) embedded – where the evaluation of domestic regional policy is regularly used as part of the policy design or implementation process; (b) evolving – where the evaluation of domestic regional policy is emerging, building on experience gained with EU Cohesion policy; and (c) externally induced – where the evaluation of domestic regional policy is limited, and evaluations are mainly conducted under EU Cohesion policy.

Research for this study across 29 European countries reveals a wide range of evaluation studies conducted in the 2009-11 period, or currently underway/planned, relating to domestic regional policies and EU Cohesion policy. The studies encompass evaluation of entire policies, programmes, specific instruments or individual projects as well as operational or institutional aspects linked to implementation.

Table 15: Regional development related evaluations completed, 2009-11, or underway/planned (in italics)

Country	Themes / topics of evaluation studies completed or in progress
Austria	ERDF and FP7 interrelation; Government funding for RTDI; Land level evaluations (e.g. Burgenland on R&D);
Belgium	Strategic Investment & Training Support (Flanders); Ecology subsidy (Flanders); SME portfolio (Flanders); Business Angels Network (Flanders); Plan Marshall 2.vert. (Wallonia)
Bulgaria	-
Cyprus	*Budgetary framework (regular reports)*
Czech Republic	MTE of Czech Regional Development Strategy. *2004-2010 National Support Programme for Regional Development; Czech Regional Development Strategy.*
Denmark	Evaluations of Regional Growth Fund
Estonia	-
Finland	Regional Centre Programme ex post; Rural Programme ex post, regional component (now merged into KOKO); Islands Programme ex post, national & regional component (now merged into KOKO); Centre of Expertise Programme MTE.
France	Combined MTE of SF OPs and CPERs; HE & research in CPERs (national); Rail & public transp. in CPERs (national); Regional thematic evaluations of CPERs; Rural renewal zones (ZRR).
Germany	GRW funded aid scheme. *GRW funded infrastructure investments.*
Greece	-
Hungary	-
Ireland	-
Italy	-
Latvia	-
Lithuania	-
Luxembourg	-
Malta	-
Netherlands	Investment Premium (IPR); Regional development agencies.
Norway	County-level regional development governance; Innovation Norway's performance
Poland	-
Portugal	-
Romania	-
Slovakia	-
Slovenia	*Development support in Pomurje region; Employment policy; Effective public administration, healthcare and the information age.*
Spain	-
Sweden	Social security reductions (national); Business advice (national); Resources centres for women (national); Operation of regional actors in the growth area & regional internationalisation work (national).
Switzerland	Agglomeration policy; Innotour programme. *MTE of 2008-2015 programme.*
United Kingdom	Impact of the RDAs (meta-evaluation); RDA commissioned follow-on evaluation (in some English regions).

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

Table 16: EU Cohesion policy evaluations completed, 2009-11, or underway/planned (in italics)

Country	Themes / topics of evaluation studies completed or in progress
Austria	15 years of territorial cooperation; Various on SF programmes; Austrian SF implementation system; KPC implementing body. *OPs MTEs (e.g. Tyrol, Upper Austria, Vienna); Programme reviews based on monitoring data (e.g. Lower Austria, Salzburg).*
Belgium	*MTE (Flanders).*
Bulgaria	National Regional Development Strategy; OP Regional Development MTE.
Cyprus	Various evaluations of co-funded programmes.
Czech Republic	OPs and the economic crisis (national); Links btw. Czech domestic policy and Czech and EU strategies with relevance to Cohesion policy (national); Interventions synergies (national); Environment (national); Employment impact (national); Bank financing (national); Integrated urban plans (national); IOP absorption capacity (national); Project assessment system (national); Other thematic evaluations on operational issues; *Ex post of 2004-06 period; MTE of 2007-13 period, including impact on environment and equal opportunities, communication; Impact of changes to the IOP; IOP Tourism support priority; National thematic evaluations (e.g. cities in future CP).*
Denmark	Strategic evaluation of Danish programmes; Thematic evaluation on innovation promotion.
Estonia	-
Finland	*Environmental effects and sustainable development of OPs; Business promotion; Innovation, networks & knowledge structure; Regional accessibility & improvement of business environment*
France	Combined MTE of SF OPs and CPERs; Contribution of ERDF to rural dev. (national); Regional thematic evaluations of Ops; Appropriateness of OPs at times of crisis; *SD (national);Innovation/competitiveness (national); post 2013 major projects (national); ICT (national); Business (national); Transport (national); Employment (national); Territorial issues (national;Regional thematic (e.g. Champagne Ardenne on future developments in macro-regional perspective, on future governance of programme development and implementation; Haute-Normandie on OP goals and evaluation system; Franche-Comté on Europe 2020 and on social dimension of sustainable development; Martinique on sustainable development strategy, Aquitaine on clusters ; PACA & Basse Normandie on gender equality; various regions on regional innovation systems, TT etc.)*
Germany	Effectiveness of CP in Convergence Obj. (federal); Effectiveness of CP in RCE Obj. (federal); Land level thematic (e.g. NRW on future of the SF, microenterprise loan fund, support for female entrepreneurs, competitive call for tenders; Sachsen-Anhalt's strategic evaluation of ERDF, ESF and EAFRD, investment oriented support, ESF support for start-ups, demographic change impact assessment). *Land level thematic evaluations (e.g. NRW on clusters, impact on climate change; Sachsen-Anhalt on ESF school training transition, ESF professional training, ERDF support for R&D, urban dimension).*
Greece	*Ongoing evaluations (2011 and 2013) of sectoral & regional OPs.*
Hungary	MTEs of ROPs; Social Renewal OP indicators; Social Infrastructure OP indicators; Efficiency of selection procedures of the New Hungary Development Plan; Service agreement btw. MAs and IBs; *Integrated approaches to CP; Climate aspects of NDAs support system;OPs' financial sustainability; Horizontal sustainability of NDP; Impact of CP on equality; Integrated developments*
Ireland	-
Italy	Ongoing evaluations of 2007-13 OPs (thematic approach + in some cases, e.g. Lombardia, MTEs); *Ongoing evaluations of 2007-13 OPs (thematic approach + in some cases, e.g. Lombardia, MTEs);Thematic growth factors for firms in Mezzogiorno* *Ex post of PIA Innovation.*

Latvia	Impact of 2004-06 OP on business (ex post); Employment impact of 2004-06 OP (ex post); Impact of 2004-06 SF programme on education & science (ex post); Effectiveness of SF management & control system; Simplification of EU management system. *MTE of implementation effectiveness of NSRF's priorities, measures and activities (in four thematic lots).*
Lithuania	Effectiveness of planning & implementation system of SF regional projects
Luxembourg	-
Malta	MTE of 2007-13 OP1.
Netherlands	-
Norway	Not applicable.
Poland	Meta analysis of evaluation and other empirical studies on CP across the EU Programme thematic evaluations (e.g. Silesia on project selection criteria, regional institutions implementation capacity, non-competitive project selection systems, communication activities). *Comprehensive ex post evaluation of 2004-06 NDP; Programme thematic evaluations (e.g. Silesia: financial support for firms, culture & tourism infrastructure projects and their influence on socioeconomic development of particular municipalities, regional monitoring & indicators systems, impact of complementarity rules).*
Portugal	16 MTEs of 2007-13 OPs; National regulations governing ERDF & Cohesion Fund. *9 MTE of 2007-13 OPs; 20 thematic (e.g. urban policy instruments, enterprise investment incentives, information & data collection systems, ERDF/EARDF coordination, social and professional integration of immigrants, gender mainstreaming, qualifications and employability)*
Romania	ROP's business environment priority. *Administrative capacity in the regions.*
Slovakia	Ongoing evaluations of 2007-13 OPs; 1 NSRF wide evaluation. *Ongoing evaluations of 2007-13 OPs; 3 NSRF-wide evaluations; Horizontal themes (4 studies).*
Slovenia	Regional development priority of OP 'Regional Development Potentials'; Evaluation of Cohesion Fund and ERDF for environment and transport infrastructure. *Macro-economic effects of NSRF; SD and the NSRF; Linking natural & cultural development potential; Equal opportunities & social inclusion; Social inclusion of Roma community; NGOs & social partners; Provision of regional goods & services; Tourism infrastructure; Crisis related ESF projects; Training, education & lifelong learning; Public calls; Venture capital funds; OPs ongoing & priorities evaluations.*
Spain	Environment (national); Immigration (national); Knowledge society, R&DID (national); MTEs of some OPs (e.g. Castilla Y la Mancha ROP, Valencia); Cohesion Fund MTE (national); Equal Opportunities (national); RDI (national); Equal opportunities (national); Publicity and communication plans; OPs ongoing/thematic evaluations (e.g. in Basque Country of RDI).
Sweden	Programme evaluations of 8 regional OPs; Environment & SD (national); Learning & business (national); Equality (national); IBs of ERDF & and ESF OPs (national); Clusters; Incubators; Environmentally-driven economic development; Links between entrepreneurship and culture.
Switzerland	Not applicable
United Kingdom	Ongoing evaluations of 2007-13 OPs (Scotland and Wales). MTEs (most English OPs) Socio-economic and policy spot-check of Scottish ERDF programmes; ESF leavers survey in Wales; Customer insight survey in Wales; Process evaluations in Scotland and Wales (community planning partnerships, effectiveness of implementation process); Ongoing and priority evaluations of 2007-13 OPs (Scotland & Wales) Thematic evaluations in Wales (R&D, enterprise support, strategic infrastructure, climate change and regeneration for ERDF, support to the young, skills and public service modernisation under ESF) and Scotland (strategic delivery bodies) ESF leavers survey & ERDF business survey in Wales.

Source: *Regional Policy Developments in Europe: Country Reviews 2010-11*, EoRPA Paper 2011/2, European Policies Research Centre, University of Strathclyde, Glasgow.

9. CONCLUSIONS

Regional policies in many parts of Europe are operating in an **uncertain economic environment.** Governments are pre-occupied with the consequences of the financial and economic crises, notably concerns about the insolvency and lack of liquidity of some eurozone members, the halting resumption of economic growth in most countries, and the need to reduce budget deficits and government debt through fiscal consolidation. In some countries, regional development policies were used as part of the policy response to the crisis, in particular as a source of spending on job-creating projects, but in other countries regional policy budgets were cut back, with funding diverted to sectoral policy initiatives. Following the crisis, cuts in public expenditure are placing renewed pressure on the resources for regional policy in parts of Europe. Indeed, in a couple of countries, the philosophy of central governments having a responsibility to promote regional development has been questioned, leading to wholesale abolition of regional policy measures and agencies.

Notwithstanding the current economic pressures, an important message from this report is that, in many countries, **there is a long-term commitment to territorial development.** A remarkable feature of the policy scene in recent years is the increasing number of spatial or territorial strategies and plans which seek to identify the territorial implications of globalisation, energy security, sustainable development, climate change, demographic change and other challenges. Such plans have time horizons extending 10 or 20 years into the future, and they consider both the opportunities and threats arising from these challenges. In most cases, these strategies are drawn us as guidelines, and they do not necessarily commit governments to providing resources or require specific policy intervention. However, they do represent a significant commitment to what has been termed (at EU level) a territorial agenda, opening up the prospect of a more territorially informed policy response to economic and social development across government.

In the short to medium term, **regional policies are undergoing review and reform** in several parts of Europe. Most notable are the policy debates and new legislation in Central and Eastern Europe (Poland, the Czech Republic, Hungary, Slovakia, Slovenia), where new domestic regional policies are emerging independent of EU Cohesion policy. New government and parliamentary decisions on regional policy are also at various stages of development in the Nordic countries (Finland, Norway, Sweden). In most cases, these policy reviews reaffirm commitment to a policy paradigm which has the over-riding objective of 'regional competitiveness', and which involves providing support in all regions through a multi-level governance system. By contrast, policy reviews in the Netherlands and United Kingdom (England) have downgraded the importance of 'regional' policies in favour of interventions that are more local and sectoral in character.

The term **'place-based policy' is at the heart of many debates** on the future of regional policy, in particular because of its prominence in deliberations at EU level (particularly the Barca Report) and in OECD policy advice. The conceptual vagueness of the term has led to some confusion, and it is arguable that regional policies are by definition 'place-based'. To a certain extent, advocates of place-based policy-making are speaking to a broader constituency of policy-makers who are responsible for rural, enterprise, innovation,

environment, transport and other policies, and who frame policy objectives in ways that are sometimes aspatial or sectoral. Instead, policy-makers are encouraged to recognise that the specific characteristics of territories (or places) require policy responses tailored to those places, whose boundaries may not be aligned with administrative areas. Such policy responses should constitute integrated packages of interventions, combining support from different policy sectors, agreed through a multi-level governance system that marries higher-order objectives with local preferences.

There is certainly **a tension between spatial and sectoral policy responses** to regional development challenges in many countries, particularly where policy-makers seek to focus on regional/national 'strengths'. A focus on growth points or 'strong centres' features in the regional development strategies of many EU12 Member states (e.g. Estonia, Poland), as well as other countries such as France, the Netherlands (until 2010) and Switzerland. For over a decade, regional clusters have been at the heart of regional policies, such as in Finland and France, and more recently in Greece, Ireland and Slovakia. It is interesting to note that clusters or 'strategic sectors' are also being supported from a sectoral perspective under new enterprise and industrial policies in Luxembourg, the Netherlands (2011 onwards), Portugal and Spain. A similar spatial/sectoral tension has long characterised support for innovation (through research and regional policies) in the regions, and recent developments in both regional and enterprise policies have brought a renewed commitment to regional innovation (in France, Luxembourg, Netherlands, Slovenia, Spain, Sweden).

The question of the territorial focus or **the appropriate spatial scale of intervention under regional policy is also being debated**. Recent policy documents and reforms in Finland, France and Poland have identified the need to use new 'spatial constructs' or geographies of support such as networks, corridors, poles and functional areas. More generally, there appears to be a trend towards tailoring policy measures to spaces defined according to factors such as peripherality, border location, structural characteristics, cultural specificities or topographical features. Policy-makers are also recognising the need to take account of the distinctive development opportunities and needs of sub-regions and localities.

The latter point is also reflected in **a greater emphasis being given to 'bottom-up' development and local capacity-building**. The issue here is how to go beyond the established administrative bodies and 'policy elites' at regional level (whether regional offices of the State or regional self-governments) to involve local authorities and municipalities and social groups more actively in the process of identifying development opportunities and constraints, designing policy responses and delivering interventions. Specific support for capacity-building and 'partnerships' has been introduced in Finland, Greece, Norway, Poland, Slovakia and the United Kingdom (England, Scotland).

Finally, an important theme of this report is **the demand for greater accountability** for government spending, evident in the debate about conditionalities in regional policy (particularly as part of the EU debate on the future of EU Cohesion policy) and on better use of evaluation. These are not new themes, but they have been given new urgency by

concerns over the effectiveness and efficiency of regional development policies in a context of public expenditure constraints.