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

EoRPA Paper 04/1

Douglas Yuill with Martin Ferry and Irene McMaster

This paper has been prepared for the 25th Meeting of the EoRPA Regional Policy Research Consortium to be held at Ross Priory, Loch Lomondside on 3-5 October 2004.

Draft: Please do not quote without permission. A revised version of this paper will be prepared after the meeting

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

September 2004

PREFACE

This overview of recent regional policy developments in the EU Member States and Norway focuses on the period from the start of 2003. The paper has been prepared by the European Policies Research Centre (EPRC) under the aegis of EoRPA (European Regional Policy Research Consortium), which is a grouping of national government authorities from countries across Europe. The Consortium provides sponsorship for the EPRC to undertake regular monitoring and comparative analysis of the regional policies of European countries and the inter-relationships with EU regional and competition policies.

EoRPA members currently comprise the following partners:

Austria
- Bundeskanzleramt (Federal Chancellery), Vienna

Finland
- Sisäasiainministeriö (Ministry of the Interior), Helsinki

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

Germany
- Bundesministerium für Wirtschaft und Arbeit (Federal Ministry for Economics and Labour), Berlin
- Sächsischen Staatsministerium für Wirtschaft und Arbeit (Saxony State Ministry for Economics and Employment), Dresden

Ireland
- Department of Enterprise, Trade and Employment, Dublin

Italy
- Ministero dell' Economia e delle Finanze (Ministry of Economics and Finance), Rome

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

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

Sweden
- Näringsdepartementet (Ministry of Industry, Employment and Communications), Stockholm

United Kingdom
- Department of Trade and Industry, London
- Scottish Executive Enterprise and Lifelong Learning Department, Glasgow/Edinburgh
- Northern Ireland Department of Enterprise Trade & Investment, Belfast

The research for this paper was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and some sub-national authorities in the EU Member States and Norway in the course of 2004.

The paper has been drafted by Professor Douglas Yuill together with Martin Ferry (Sections 5 and 6), Irene McMaster (Section 6) and Fiona Wishlade (part of Section 2). It draws on country-specific research contributed by the following research team (all EPRC unless indicated)

- Sara Davies (Austria, Germany)
- François Josserand (Belgium, Luxembourg)
- Henrik Halkier, Ålborg University (Denmark)
- Douglas Yuill (Finland, the Netherlands)
- Fiona Wishlade and François Josserand (France)
- George Petrakos, Yannis Psycharis, both University of Thessaly (Greece)
- Irene McMaster (Ireland)
- Laura Polverari (Italy)
- Nina Celina Quiogue (Norway, Sweden)
- Carlos Méndez (Portugal, Spain)
- Martin Ferry (UK)
- Irene McMaster and Martin Ferry (new Member States)

Many thanks to everyone who participated in the research. The European Policies Research Centre also gratefully acknowledges the financial support provided by the EoRPA Consortium. However, the views expressed are solely those of the author(s).

TABLE OF CONTENTS

1. INTRODUCTION

The purpose of this overview is to review changes in regional policy in the EU Member States since the start of 2003. The focus is on developments within the EU-15 (and Norway); recent policy changes in the new Member States are dealt with separately in Section 6. As in past reports, the aim is not only to identify what regional policy changes are taking place but also why they are occurring and how they relate to longer-term policy trends.

The current policy period can be viewed as an intermediate phase. Member States are halfway through the 2000-06 Structural Funds programming period and are also midway through the period of operation of the 1998 Regional Aid Guidelines. This suggests that policy change is likely to be limited: the Structural Funds focus is on carrying through the agreed programmes as efficiently and effectively as possible, above all trying to avoid the loss of funding through the n+2 decommitment rule; while, with respect to the Regional Aid Guidelines, Member States have been decidedly reluctant to initiate any new policy developments which might require DG Competition approval.

Despite this, the country reviews show that there has still been considerable regional policy activity in the countries under study.[1] In a number of instances, the phasing of regional policy initiatives is determined by factors other than EU policy frameworks. Thus, for example, in Denmark, Finland, France, Portugal, Spain and Norway, changes in government over the past year or so have fed through into new policy proposals and approaches. In addition, in the Netherlands and Germany, regular four- or five-year review cycles have resulted in new policy initiatives, minor in Germany, much more significant in the Netherlands. Further, in some countries, policy decisions taken in earlier periods have now been implemented, most obviously the introduction of new Regional Growth Programmes in Sweden. Finally, a number of developments stem directly from the intermediate nature of the current policy phase. Not only have Structural Fund programmes been subject to mid-term evaluation and review (with implications for national policies via co-financing), but many national policy measures have also been evaluated as part of the process of refining future initiatives. More than this, in the context of developing positions with respect to future EU frameworks, many countries have been engaging in fairly fundamental reviews and/or debates around aspects of national regional policy. On the one hand, this reflects changes in the nature and, perhaps particularly, the perception of the regional problem while, on the other, it responds to the very different policy environment that is emerging in the context of an enlarged EU and a growing policy focus on national and regional competitiveness (as reflected in the Lisbon agenda).

This overview is in six sections. Following this introduction, Section 2, reviews the nature and scope of the regional problem from an EU perspective, highlighting patterns of regional disparity across EU25. This section also identifies changing perceptions of the regional problem, underlining the significant shift there has been in recent years away from narrowly-targeted problem areas and towards the identification and development of regional potential in all regions within a country. Section 3 then provides an overview of recent policy responses. It first discusses the changes which have been taking place on a country-by-country basis before

[1] Yuill D (editor) *A Country-by-Country Review of Recent Regional Policy Developments in the Member States and Norway: Changes in 2003-04*, EoRPA Paper 04/2, European Policies Research Centre, University of Strathclyde, September 2004

highlighting the key themes to have emerged. The aim of Section 4 is to take these broad policy developments and consider them in more detail by reviewing how the different components of policy have been changing – regional incentives, measures in support of the business environment, regional programming and strategy development and other policy initiatives (including, for instance, attempts to disperse government jobs away from capital city regions). The penultimate section (Section 5) then reviews the key administrative changes which have been taking place – in particular, the increasing regionalisation of regional policy (in the context of broader decentralisation trends) and, associated, the growing stress on policy coordination. Finally, having considered recent policy change in the EU15 and Norway, Section 6 reviews recent developments in the new Member States.

2. PERCEPTIONS OF THE REGIONAL PROBLEM

2.1 Regional Disparities

Traditionally, regional problems have been viewed from a national perspective. Prior to the reform of the Structural Funds in 1988, indicators of regional disparity were drawn from national rather than EU statistics and measured disparity against national rather than EU averages. Since 1988, EU measures of disparity have increasingly moved centre stage. This has been particularly the case with respect to eligibility and allocation criteria under the Structural Funds but, looking to the future, it seems as if the availability of national regional aids may also be driven by EU criteria.[2] This section briefly considers regional disparities from an EU perspective before taking a national view of problem regions.

2.1.1 EU perspectives[3]

Cross-country comparisons of regional disparities and problems are difficult. Not only does the nature of the regional problem differ between countries, but so does the perceived importance of particular factors. In addition, questions can be raised about the relevance and comparability of the available statistics. Despite these difficulties, such comparisons are of increasing importance and, indeed, now lie at the heart of the methodologies used to determine not only Structural Funds eligibility and funding but also, as mentioned, the future availability of national regional aids. At the European level, three indicators have traditionally been used to assess regional disparities: GDP per head; rates of unemployment; and population density.

GDP per head in purchasing power parities (PPS) at the NUTS II level has been the main measure of regional disparities in the EU since the 1988 reform of the Structural Funds. Over time, and with increasing strictness, it has determined the coverage of Objective 1 and Article 87(3)(a) areas as well as playing a central role in the allocation of funding within Objective 1. An overview of GDP (PPS) per head at NUTS II for 1999-2001 is provided in Figure 2.1 (as a percentage of the EU25 average). The poorest NUTS II regions (at 40 percent or less of the EU25 average) are in the eastern parts of Poland, Hungary and Slovakia as well as in Latvia and Lithuania. Including areas with up to 50 percent of the EU25 average extends coverage to the remainder of Poland (except Mazowieckie), Estonia, and further

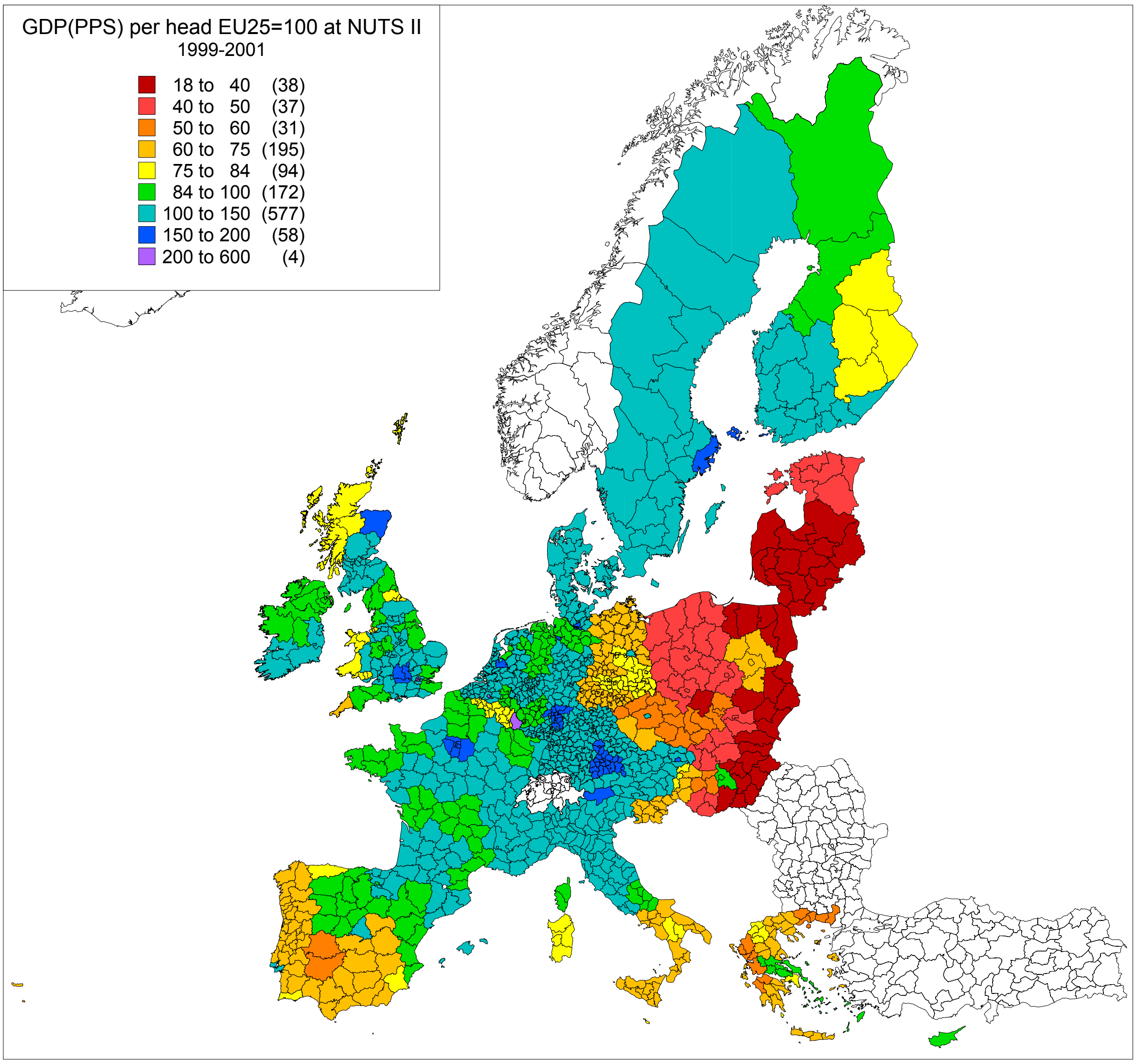
---

[2] See DG Competition, *Review of the Regional Aid Guidelines – A first consultation paper for the experts in the Member States*, April 2004

[3] This section was written together with Fiona Wishlade.

areas in Hungary and Slovakia. A 60 percent GDP per head cut-off adds in a large part of the Czech Republic and another Hungarian area as well as the poorest regions in EU15 – in Greece, the French overseas territories, Extremadura in Spain and the Azores in Portugal.

Figure 2.1: GDP (PPS) Per Head at NUTS II 1999-2001 (EU25=100)



Note: Although the data has been applied at NUTS II, the boundaries shown in the map (and recorded in the key to the map) are NUTS III

Within the new Member States, only nine NUTS II regions (around one-fifth of the new Member State total) lie above the 60 percent threshold: Jihozapad (CR) and Nyugat-Dunantul (HU) (both just over 60 percent); Mazowieckie (PL) and Slovenia (68-75 percent); Cyprus, Malta and Kozep-Magyarorszag (HU) (75-84 percent) and the capital city regions of Praha (CR) and Bratislavsky (SK) (both above the EU25 average). Within EU15, regions below the 75 percent threshold are mainly in Greece, Portugal, the south of Spain, the south of Italy and the east of Germany. However, different from the position prior to EU enlargement, only parts of these traditional problem regions now fall below the 75 percent cut-off; they are no longer eligible in their entirety. Cornwall and the Isles of Scilly in the UK also qualify.

While GDP (PPS) per head at NUTS II is now a familiar measure of regional disparity, it has been criticised as an indicator of a region's wealth.[4] There are problems relating to the impact of commuter flows (since GDP is a "place of work" figure which is then divided by a "place of residence" measure), to the difficulty of allocating GDP to a specific location (a particular problem with respect to multi-branch firms but also an issue in the energy field), to the fact that government transfers are not taken into account and to the use of PPS. With respect to PPS, Eurostat has made the point that GDP (PPS) per head is not appropriate for the compilation of precise rankings even at the national level[5] and that regional GDP in PPS is particularly problematic since regional PPS figures are not available. Even so, GDP (PPS) per head at NUTS II has become the key measure of regional disparity for Structural Funds purposes. As the Third Cohesion Report puts it,[6]

> *"… it is not a perfect measure and has a number of weaknesses. …Nevertheless, given the data which at present exist and the conceptual difficulties which remain to be resolved, it remains, by common consent, the best measure available."*

A further point is that GDP (PPS) per head is obviously sensitive to different regional breakdowns. GDP per head at NUTS III produces much wider disparities – the range around the EU25 average is from 18 percent to 519 percent compared with 32 percent to 279 percent at NUTS II. This is not to propose NUTS III as an appropriate unit of analysis (the conceptual and statistical problems associated with GDP (PPS) per head are exacerbated with increasing levels of disaggregation) but rather simply to make the point that different units of analysis impact on outcomes. This is important because the size and nature of NUTS regions varies so widely across the EU.

For information, GDP (PPS) at NUTS III is shown in Figure 2.2. The increased level of disaggregation draws a further 60 NUTS III regions (around 5 percent of the total) below the 75 percent threshold and another 30 NUTS III regions below the 84 percent (statistical effect) cut-off. Nearly all the additional areas below the 75 percent threshold are within EU15, in particular in the United Kingdom, Belgium, Austria and western Germany. In addition, some NUTS III areas (mainly capital city regions) move above the 75 percent threshold, particularly in Greece, Portugal, Slovenia and, one suspects, Poland.[7]

Labour market indicators have also played a role in determining problem regions from an EU perspective, especially rates of unemployment. However, they have been much less significant than GDP per head, not being part of the designation methodology for Objective 1 regions and making only a modest contribution to the Structural Fund allocation methodology. At one level, this reflects the fact that unemployment rates can be difficult to interpret: for instance, low unemployment may be the product of high out-migration; while a low demand for labour may impact on activity rates (including decisions to leave full-time education) and thus on headline unemployment rates. Also, from a comparative perspective, unemployment rates are sensitive to the structure and level of support within the welfare system – for

[4] Eurostat "How rich are Europe's regions? Experimental calculations" *Statistics in focus,* 06/2003.

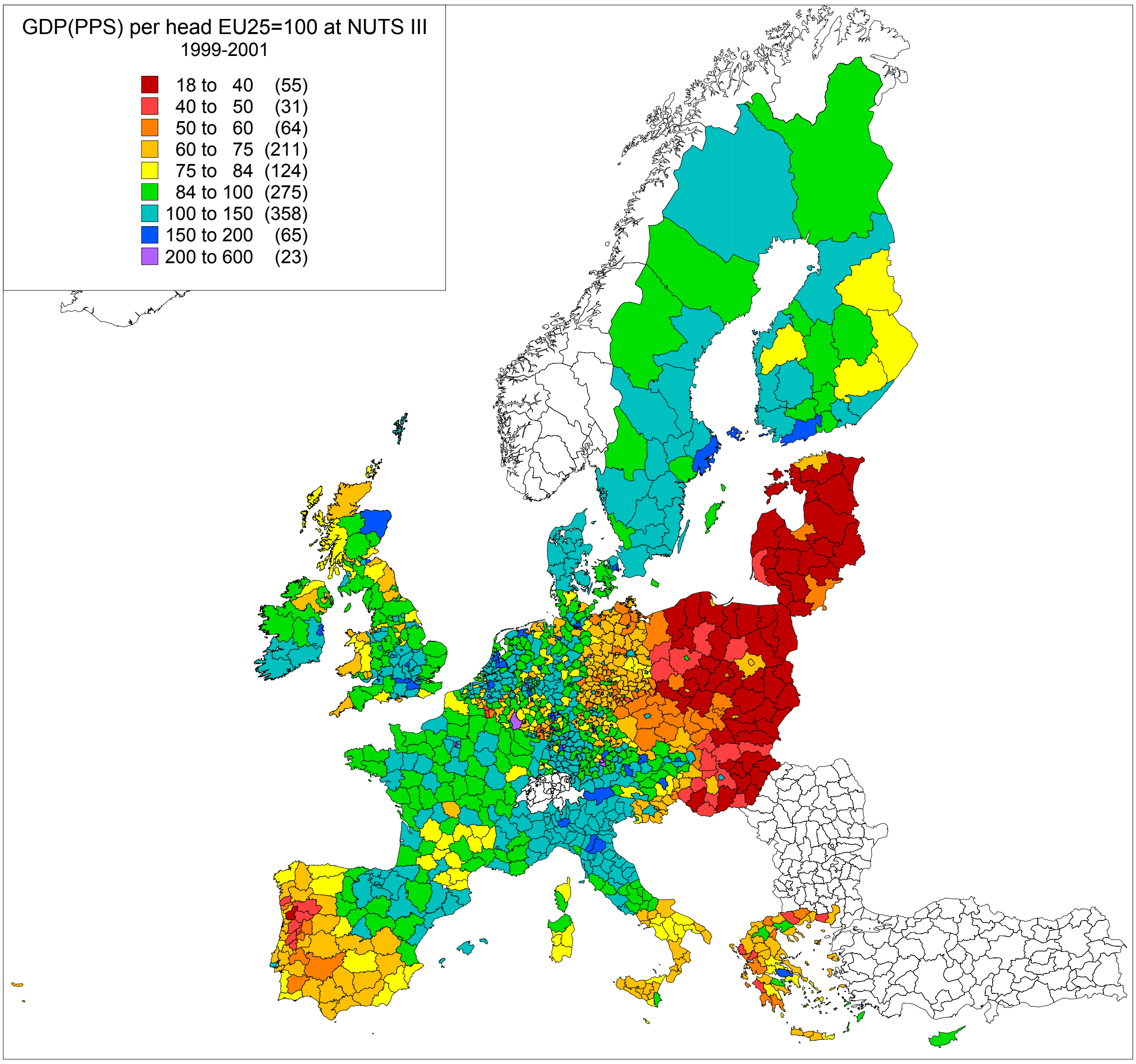
[5] Eurostat, *Methodological note for the revision of the PPP from 1995 to 2000*, 2003

[6] European Commission, "A New Partnership for Cohesion: Convergence, Competitiveness, Cooperation", *Third Report on Economic and Social Cohesion*, February 2004, page 25

[7] See note to Figure 2.2

instance, disability benefits and long-term-sickness; the availability of training schemes; the approach taken to seasonal working etc.

Figure 2.2: GDP (PPS) Per Head at NUTS III 1999-2001 (EU25=100)



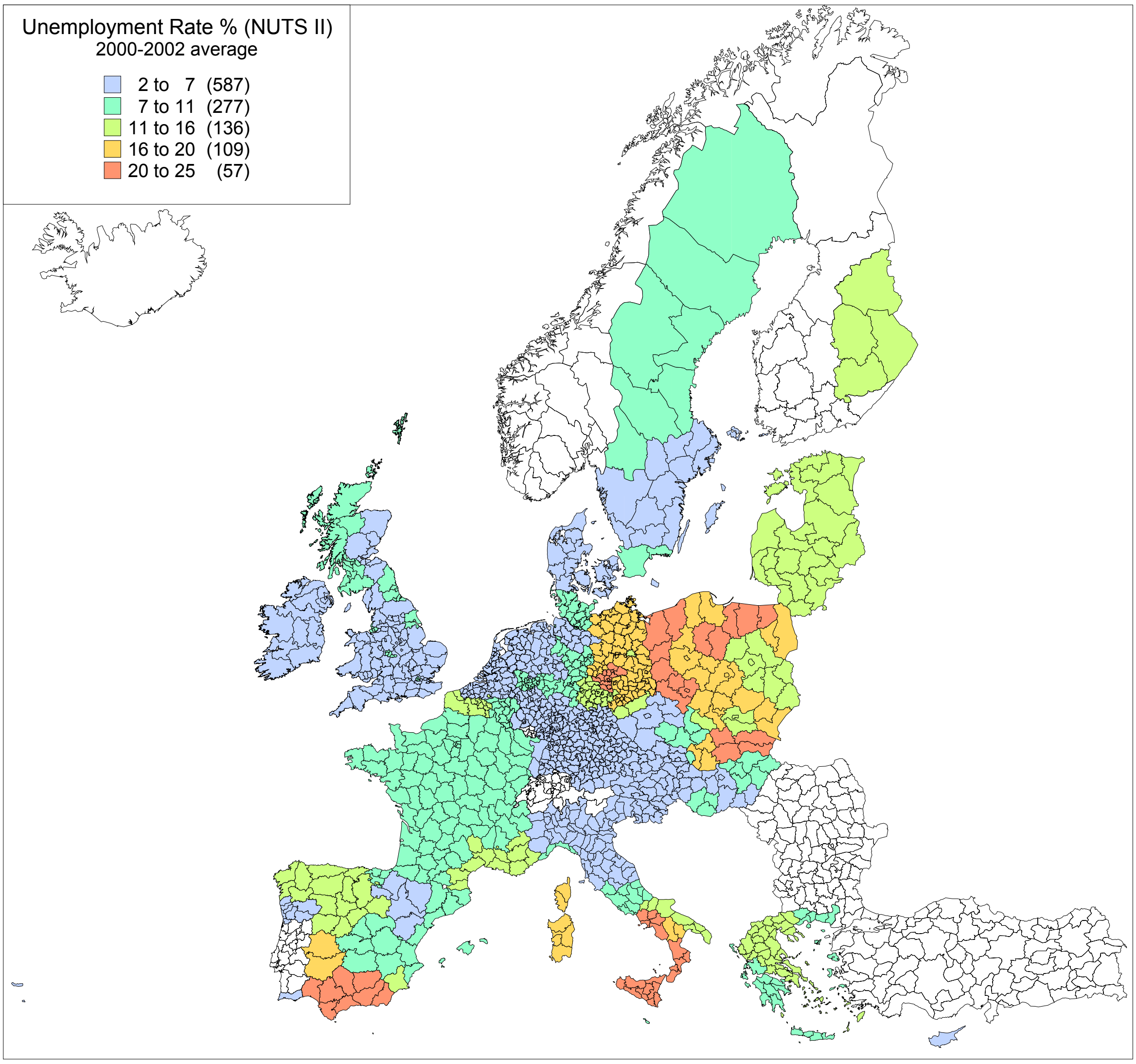
Note: NUTS III data is not available for the Slaskie and Warsaw areas of Poland, for Malta or for Ceuta and Melilla. For these areas, NUTS II data has been used.

Figure 2.3 illustrates the continuing strong national orientation of unemployment rates. Relatively low percentage unemployment is recorded in countries like Austria, Denmark, Ireland, Sweden, Portugal and the UK, as well as in western Germany and the centre-north of Italy. Within the new Member States, not only Cyprus and Malta but also much of the Czech Republic, Hungary and Slovenia record below EU average unemployment rates. In contrast, those regions with the highest rates (over 16 percent) are concentrated in Poland, Slovakia, east Germany, southern Italy and the south of Spain. Interestingly, many of the worst-off areas in terms of GDP per head are not at the extremes in unemployment terms, including areas along the eastern borders of the EU (in Poland, Lithuania and Latvia). One last point to note is that, for the period covered, unemployment data was not available for a number of NUTS II regions (in Finland, Portugal and northern Italy).

Population density became a measure of regional disparity at the European level with the accession of Finland and Sweden to the EU. Existing problem region indicators

failed to capture the nature of the regional problem in the Nordic countries where GDP per head levels are not especially low nor unemployment rates particularly high. Two population density measures apply: for Cohesion policy purposes, eligible areas are those with a population density at NUTS II of less than 8 inhabitants per km^2; for State aid purposes, eligible areas are those with a population density at NUTS III of less than 12.5 inhabitants per km^2.

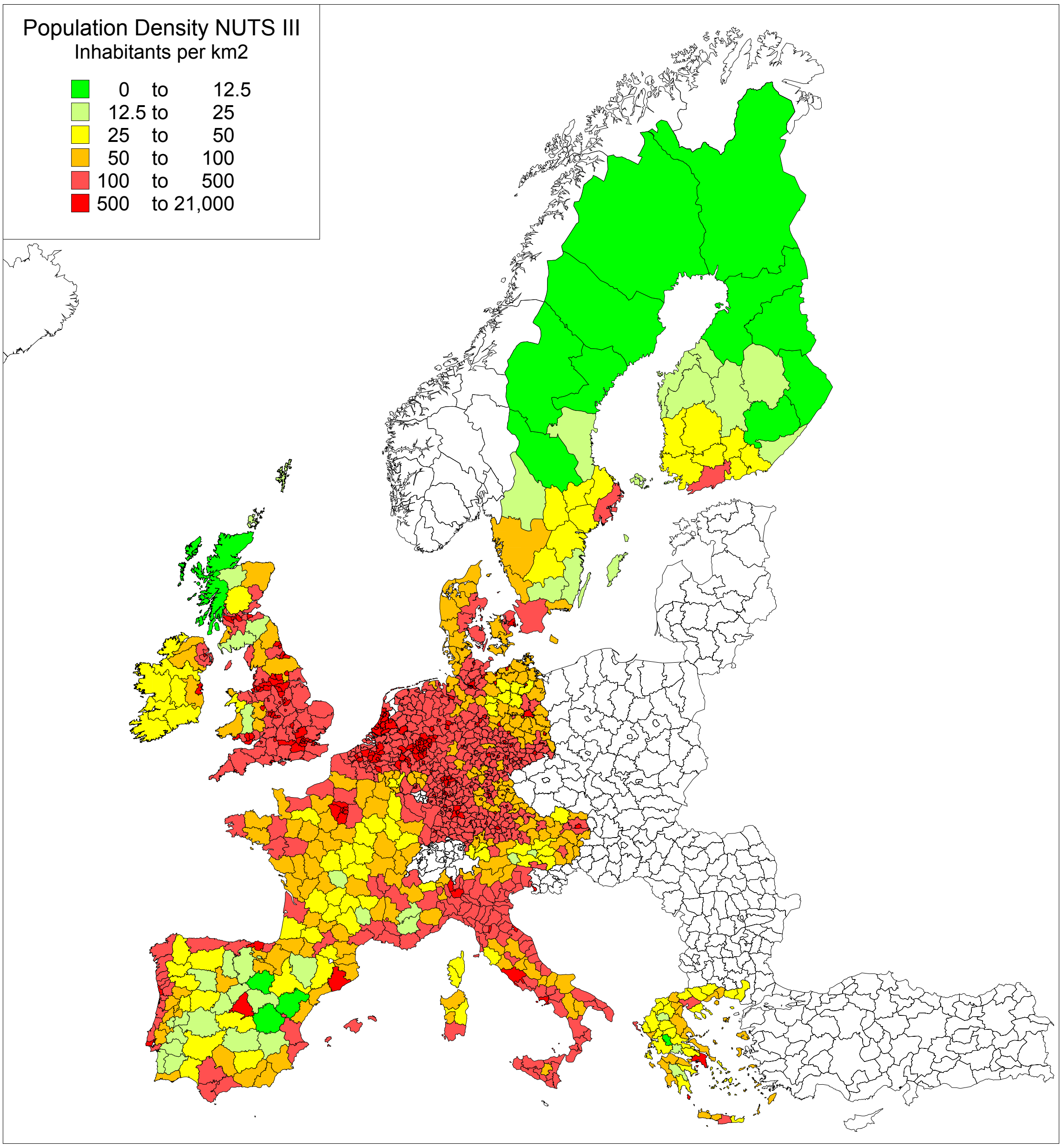
Figure 2.3: Unemployment Rates at NUTS II (2000-02)



Note: Although the data has been applied at NUTS II, the boundaries shown in the map (and recorded in the key to the map) are NUTS III

Figure 2.4 shows population densities at NUTS III for EU15. Five Finnish regions, five Swedish regions, three regions in the north-west of Scotland three Spanish regions and a single Greek region meet the 12.5 threshold. In past policy phases, only regions in Finland and Sweden qualified as sparsely-populated regions for Cohesion policy purposes and only Finnish, Swedish and Scottish regions under the EU regional aid regime. The Spanish and Greek regions qualified anyway for Structural Funds and regional aid support under the GDP per head criterion.

Figure 2.4: Population Density at NUTS III (EU15)



Looking to the future, a wider range of regional indicators are becoming available for comparative purposes. In the Third Cohesion Report, the regional problem was reviewed not only with reference to GDP per head but also in terms of labour market indicators (employment rates, unemployment rates (female, youth, long-term)), demographic indicators (old-age dependency rates, population change), accessibility indicators (density of motorways) and competitiveness indicators (educational attainment, R&D expenditure, high-tech employment, internet accessibility). In addition, in the context of the Lisbon agenda, 14 structural indicators have been identified as potential measures of competitiveness,[8] though only one of these (the dispersion of regional employment rates) currently has a regional dimension. On the other hand, precedent is an important factor in analysing regional disparities from an

[8] See, European Commission, *Communication from the Commission, Structural Indicators*, COM(2003) 585 final, Brussels, 8.10.2003

EU perspective. The criteria which have been proposed by the Commission to determine future eligibility for the Structural Funds and the level of Structural Funds support continue to focus predominantly on GDP per head at NUTS II.

The Draft General Regulation for the Structural Funds[9] suggests that areas eligible under the convergence criterion would be NUTS II regions with GDP per head in PPS of less than 75 percent of the EU average over the last three years for which data is available, with temporary additional support for statistical effect regions (also measured in GDP per head terms). Regionally-targeted support would also be available for current Objective 1 regions which do not qualify in future for economic reasons and which are not impacted by the statistical effect, as well as those outermost regions which do not otherwise qualify for support. Outside these areas, the Commission proposes that eligibility criteria should not target specific regions and that, instead, a more thematic approach should be adopted. With respect to resource allocation, the Commission proposal is that the Berlin methodology should continue to apply. Under the convergence criterion, this is based primarily on GDP per head at NUTS II, though a minor adjustment is made to reflect relative unemployment levels. The Commission also suggests that Member States take "territorial" criteria into account when allocating resources under the regional competitiveness and employment priority.

The proposed new regional aid rules are closely aligned with the above Structural Funds eligibility criteria.[10] They suggest: that the 75 percent GDP per head threshold should, as at present, define Article 87(3)(a) areas and that there should be four categories of region earmarked for assistance under Article 87(3)(c) – regions losing Article 87(3)(a) status due to the statistical effect; regions losing their Article 87(3)(a) status for economic reasons; outermost regions not otherwise included; and areas of low population density (that is NUTS III regions with less than 12.5 inhabitants per km^2).

Taking both frameworks together, it is clear that current Commission proposals continue to focus heavily on NUTS II regions with low levels of GDP (PPS) per head. Unemployment rates play only a very minor role within the allocation methodology, while population density has been largely sidelined within the proposed convergence criteria (though it is taken into account for regional aid purposes and has been put forward as a possible allocation mechanism for use by Member States under the regional competitiveness and employment priority).

2.1.2 National perspectives

At the national level, the criteria used to measure regional disparities differ widely between countries. They also differ significantly from the approach taken at the EU level. In particular, within the national context, very little use is made of GDP per head as a problem region criterion, labour market indicators are generally much more complex than a simple focus on unemployment rates, population density *per se* is rarely highlighted and a far more targeted approach is generally taken to the designation of problem regions, involving much more disaggregated units of analysis.

---

[9] European Commission, *Proposal for a Council Regulation laying down general provisions on the European Regional Development Fund, the European Social Fund and the Cohesion Fund*, COM(2004)492 final, 14 July 2004, Brussels

[10] See DG Competition, *Review of the Regional Aid Guidelines – A first consultation paper for the experts in the Member States*, April 2004

These contrasts can be readily seen by reviewing the indicators used by the Member States to designate Article 87(3)(c) areas for the 2000-06 period. Table 2.1 shows, first, that comparative income levels tended to be used rather than GDP per head as the main economic indicator; second, that considerable stress was placed on labour market indicators, not only unemployment but also employment and participation rates often broken down by gender and sector; third, that demographic factors also played a role in a number of countries, in particular population trends; and fourth, that recourse was made in some countries to physical indicators including measures related to infrastructure provision.

Another important difference with respect to national approaches to aid area designation for the 2000-06 period is that designation exercises were never undertaken at NUTS II and rarely at NUTS III. Instead, NUTS IV units were used in Finland, Spain and Sweden, while a range of other countries either utilised labour market regions or variations thereof (France, Germany, Italy, the UK) or else made use of NUTS V (Belgium, Luxembourg, the Netherlands).

In short, and unsurprisingly, Member State approaches to designating problem areas generally involve a much more detailed analysis of the nature of the regional problem, based on attempts to understand underlying regional dynamics and to reflect this understanding in the choice of units of analysis and problem region indicators. This is not possible in any EU-wide analysis, where data availability (and acceptability) tends to drive the process.

2.2 Changing Views of the Regional Problem

The regional policy context has changed considerably since designated aid areas were approved by the competition policy authorities for the 2000-06 period. In virtually all Member States, the promotion of national and regional competitiveness has moved up the policy agenda in response to a variety of factors: globalisation, trade liberalisation, EU integration, enlargement and, of increasing importance in a number of countries, sluggish economic growth. At the EU level, too, enhanced competitiveness has become a key policy goal. This can be seen not only from the emphasis placed on the Lisbon agenda but also in the extent to which the need to improve competitiveness has fed through to the structure of the proposed new financial perspective and to Commission proposals about future Cohesion policy.

A summary overview of current perceptions of the regional problem in the countries under study is set out in Table 2.2. Although designated aid areas remain a component of policy in nearly all countries, the regional problem is now rarely seen solely in the context of narrowly-defined areas; instead, it is increasingly viewed in terms of the need to improve growth and competitiveness at the regional level in all parts of the country.

Table 2.1: Article 87(3)(c) Indicators in Member States' Area Designation Proposals (2000-06)

	Economic	Labour Market	Demographic	Other
Austria	Y	Y	Y	Complex 35 indicator combined system
Belgium	1. Taxable income	2. Unemployment rate 3. Industrial employment 4. Long-term unemployment 5. % of manual labour 6. Population without qualifications		
Denmark	1. Taxable income	2. Population employed 3. Service sector employment 4. Manufacturing employment	5. Age Structure 6. Population decline 7. Population density	
Finland		1. Unemployment rate 2. Youth/long-term unemployment rate 3. Decline in industrial employment	4. Net migration	5. *Combined* rural measure (GDP per head; agricultural employment; active population rates)
France	1. Taxable income	2. Unemployment rate 3. Sectoral decline in employment	4. Net migration	5. Ex-Objective 1 areas 6. Anticipated plant closures
Germany	1. Income per head	2. Unemployment rate 3. Employment prospects		4. Infrastructure endowment
Ireland	1. GVA 2. Earned income	3. Dependency on agriculture 4. Long-term unemployment	5. Population growth	6. Urbanisation
Italy		1. Unemployment rate 2. Composite of unemployment and industrial jobs 3. Change in agricultural employment		
Luxembourg		1. Unemployment rate 2. Industrial employment		3. Brownfield sites
Netherlands	1. Household income	2. Net employment participation rate 3. Employment rate 4. Unemployment rate		
Portugal	1. Economic structure 2. Purchasing power ind. 3. Tax revenue per km²	4. Agricultural employment 5. Industrial employment		
Spain		1. Unemployment among over 45s 2. Industrial employment	3. Ageing population 4. Population density	
Sweden	1. GDP per head	2. Long-term employment development 3. Unemployment 4. Industrial workforce	5. Long-term population trends	
UK		1. Employment participation rate 2. Residence-based unemployment 3. Workforce-based unemployment 4. Dependence on manufacturing 5. *Combination* of 1, 2 and 3		6. Northern Ireland

Source: Wishlade F, *Regional State Aid and Competition Policy in the European Union*, Kluwer, The Hague, 2003, Figure 32

For discussion purposes, the countries in the table can be divided into five groups. First, there are four Member States where regional disparities are viewed as minor: Austria, Denmark, Luxembourg and the Netherlands. In these countries, problem regions are not perceived to be an issue. This has been the case in ***Austria*** for many years. The traditional Austrian view is that the policy focus should be on regional problems rather than on problem regions; as a result, map-based policymaking is not favoured and, indeed, survives only in the context of EU policies. The regional problem in Austria is currently seen mainly in enlargement terms – the concerns, but also the opportunities, arising from the new geography of the EU. In ***Denmark***, regional aid was abolished in 1991. Since that time, the aim of regional policy has been to maximise the contribution of every region to national growth. Interestingly, a 2003 White Paper has re-introduced a map-based element to policy. This reflects a concern that the poorest travel-to-work areas (measured by work-related income per head) are becoming separated from the centres of growth. On the other hand, the support made available to these peripheral areas is distinctly low-key. In ***Luxembourg***, the size and nature of the economy mean that regional problems have never been an issue. Finally, in ***the Netherlands***, a 2004 Policy Memorandum argues strongly that regional disparities are no longer of significance, that all regions now have the basics in place to develop economically and that the policy focus should therefore be on projects and areas where the national benefit is maximised.

A second group consists of the Nordic countries. Here, the regional problem has traditionally been seen in terms of the maintenance of service provision and settlement structures in the north. However, this view has been transformed (or at least significantly enhanced) in recent years. In ***Finland***, for instance, a long-standing regional policy focus on rural areas has been replaced by recognition of the importance of international competitiveness in economic development and the role that urban centres play in this. This has led to a regionally-based approach to policy which aims to facilitate the development of specific policies for specific regions. That said, traditional regional problems in the east and north continue to be given significant weight. In ***Sweden***, regional policy has, for many years, concentrated on the problems of the peripheral north (de-population, unbalanced population structures, ageing). While measures to combat such concerns remain in place (not least via regional aid), the recently-introduced regional development policy also responds to the perceived problems of the big cities. It takes the form of an all-encompassing policy which aims to enhance development potential in all parts of the country. Finally in ***Norway***, the regional problem is now couched in terms of the need to achieve balanced development, with all parts of the country benefiting from population growth. There has been a shift from an emphasis on regional equity to concerns about efficiency and economic growth. A policy which had been targeted top-down at designated problem regions has been replaced by a bottom-up approach under which regional policy has a much broader geographical, social and economic coverage.

Table 2.2: Current Perceptions of the Regional Problem

Austria	The traditional policy focus is on regional problems rather than problem regions. Policy is about the development of *any* region, not just poor regions. Map-based policymaking remains mainly because of EU policies (especially the Structural Funds). Current debates focus on enlargement-related issues: in particular, border problems and opportunities
Belgium	The devolved nature of economic development policy means that regional policy is viewed from a regional perspective (in Flanders, Wallonia and Brussels). The regions tend to take a whole-region perspective, except with respect to large firm aid which is limited to designated aid areas.
Denmark	The long-standing focus is on maximising the contribution of every region to national growth. No regional aid since 1991. Recently, preferential treatment introduced for peripheral areas: the 15 poorest TTWAs plus those with taxable income per head below 80 percent of the national average.
Finland	The emphasis on international competitiveness and on a whole country approach based around dynamic urban centres has increased. The importance of developing specific policies to meet the needs of specific regions is stressed. Traditional problem regions remain a focus of aid policy and there is provision to respond to problems created by sudden structural change. Population ageing is also recognised as a future issue.
France	Traditionally, there is a nationwide spatial development focus rather than a problem region orientation. The CIADT has recently highlighted regional disparities in wealth creation and has stressed the contribution made by different regions to the national economy.
Germany	GA regional policy consists of spatially-targeted regional aids and infrastructure support. The aim is to help structurally-weak regions overcome their locational disadvantages, strengthen competitiveness and participate in broader economic development processes.
Greece	Although disparities in GDP per head are modest, broader indicators of regional development show significant disparity. The spatial focus of policy, under which support is limited to areas outside Region A (centred on Athens and Thessaloniki), has been eroded over time
Ireland	There are sizable variations in income and output levels between (NUTS III) regions in Ireland, with distinct problems in different areas, ranging from congestion in Greater Dublin to rural challenges in smaller towns in the north, west and south. The policy objective is to try to achieve more balanced regional development to help reduce regional disparities and release regional potential.
Italy	Policy is targeted at the improving the competitiveness of *Mezzogiorno*, which is perceived to be performing poorly in an EU context. Low growth rates have shifted the focus from traditional GDP and unemployment-based analyses to measures of productivity, R&D, innovation etc. The need to reduce social disadvantage has also seen more stress placed on measures of poverty.
Luxembourg	The nature and size of the economy means that the policy focus is on enhancing competitiveness, partly by encouraging endogenous development but also by supporting FDI.
Netherlands	Policy is shifting from problem regions to areas of development potential (a) because regional disparities are no longer viewed as significant; (b) because previous problem regions are believed to have the basics in place to develop economically; (c) because of the wish to focus policy on projects/areas where the national benefit will be maximised.
Portugal	The regional problem is seen as subsidiary to the basic policy task of promoting economic growth and productivity. Nevertheless, a new policy programme has introduced positive discrimination in favour of designated disadvantaged and depressed areas, to ease their transition towards more sustainable development strategies.
Spain	The national approach to regional development is strongly influenced by and embedded within the Structural Funds framework.
Sweden	Traditionally, regional policy focused on the (mainly demographic) problems of the peripheral north, with a view to maintaining settlement patterns and service provision. While such measures remain in place, the new regional development policy concentrates on developing growth potential in all parts of the country. In part, this all-region approach responds to perceived urban problems.
United Kingdom	The regional problem is seen (in the Regional Growth PSA) in terms of the need to improve economic performance in *all* regions by focusing on the “drivers” of productivity (skills, innovation, investment, competition, enterprise). On the other hand, the equity component of policy is also recognised in the policy aim to reduce the persistent gap in regional growth rates.
Norway	The regional problem is couched in terms of the need to achieve balanced development in which all parts of the country experience population growth. There has been a shift from equity issues to efficiency and economic growth concerns. A policy targeted top-down at designated problem regions has been replaced by a bottom-up approach reflecting local needs and requirements.

Third, there are the four countries which, in the current programming phase, are covered wholly or mainly by Objective 1 or Objective 1 phase-out regions: Greece, Ireland, Portugal and Spain. Over the years, the problem in these countries has been perceived more in terms of national rather than regional development. In ***Greece***, the national orientation to policy remains strong, with only one quarter of the Structural Funds channelled through regional programmes. In ***Portugal***, too, the regional problem is seen as subsidiary to the basic policy task of promoting economic growth and productivity. Nevertheless, an analysis has recently been made to identify problem regions (those with 'purchasing power' of less than 75 percent of the national average) and a new programme (the PRASD) has introduced positive discrimination in favour of these regions. The aim is to ease their transition towards more sustainable development strategies. In ***Ireland***, the need for more regionally-oriented policymaking is recognised in the National Development Plan goal that more balanced regional development should be achieved. However, the current challenging development context (rising costs, global uncertainties, increased competition for FDI) is seen to have implications for both national and regional policy. Above all, it has enhanced the weighting attached to broader policy measures which help reinforce the ongoing move towards an internationally-competitive, knowledge-based economy. Lastly in ***Spain***, the national approach to regional development is strongly influenced by, and embedded within, the Structural Funds framework. Just 37 percent of the Objective 1 CSF is managed by the regions, highlighting the continuing significant role of the national level in this policy area. Taken together, it can be seen that, in the current policy phase, these four countries continue to have a wide (often nationwide) view of economic development problems and priorities. In none of them is the regional problem couched in terms of narrowly-defined problem regions.

Fourth, Italy and Germany are two Member States which, as the earlier maps showed, are facing severe internal disparities – north-south in Italy, east-west in Germany. In ***Italy***, the perception of the regional problem (and the appropriate policy response) has been evolving in recent years. Having for a period also covered disadvantaged areas in the Centre-North, regional policy is now targeted at improving the competitiveness of the *Mezzogiorno* (the South). In tandem with this stress on enhanced competitiveness, there has been a shift away from traditional GDP and unemployment-based indicators towards measures of productivity, R&D and innovation. In other words, the Lisbon themes are beginning to be reflected domestically. At the same time, the wider approach to economic development in the Objective 1 CSF has caused attention to be placed on broader measures of disparity, including indicators of relative poverty and social disadvantage. In ***Germany***, national regional policy has traditionally targeted structurally-weak regions which need support to help them overcome locational disadvantages. This remains the focus of the GA, the joint federal-*Land* mechanism for promoting regional development. However, this approach to regional economic development is not uncontested. There has been recent debate (reflecting, in particular, the views of a number of the richer western *Länder*) about whether the targeting of problem regions through the GA remains appropriate or whether a more growth-oriented policy should be followed.

A final and, in the current context, somewhat miscellaneous group of countries remains to be reviewed: Belgium, France and the United Kingdom. In ***Belgium***, the key feature is that policy responsibilities lie at the regional level – in Flanders, Wallonia and Brussels – which tends to lead to "whole region" approaches to economic development. In ***France***, the traditional policy focus is on spatial development in a broad sense rather than on narrowly-defined problem regions. Interestingly, the most recent re-orientation of policy, introduced following a change of government in 2002, does not take as its starting point falling regional disparities in

household income over the past two decades; instead, it concentrates on the fact that disparities in wealth creation have widened. While traditional regional problems are acknowledged (in particular, rural, urban and industrial restructuring challenges), disparities in the contribution made by different regions to national development are highlighted. From this have come policy proposals that all parts of France should be involved in the development of the national economy. In the ***United Kingdom***, too, the perception of the regional policy challenge has developed considerably in recent years. Productivity differences are seen to lie at the heart of regional differentials and have caused policy to focus on the five drivers of productivity: skills, innovation, investment, competition and enterprise. At the same time, policy attention has shifted from narrowly-targeted problem areas to the broader regional level which, also in response to the ongoing devolution of powers in the UK, now has the main responsibility for developing and implementing regional policy.

Briefly summing up these various developments, it can be seen that, across a wide range of countries, the perception of the regional problem has changed considerably in recent years. As can be seen from Table 2.3, the emphasis is no longer solely or even mainly on narrowly-defined areas which are viewed as problem regions due to their low levels of income per head or high levels of unemployment or significant out-migration (even though designated aid areas still benefit from regional aid in most countries). Instead, the stress virtually everywhere is on enhancing growth, competitiveness and productivity at the regional level, developing appropriate policies in each region to help maximise the regional contribution to national growth and development.

Table 2.3: The Spatial Focus of Regional Policy

	Whole Country Approach	Spatial Focus
Austria	National regional policy has a strong innovation component that tends to apply country-wide.	Few aids restricted to the designated aid areas (traditional focus on regional problems rather than problem regions).
Belgium	Economic development policy is the responsibility of regional governments which tend to take whole region approaches.	Investment aid generally distinguishes between SMEs and large firms; only large-firm support is spatially restricted.
Denmark	Since 1991, Denmark has had a whole country approach to regional policy based mainly around local and regional initiatives.	No regional aid since 1991. In May 2003, a new focus on certain peripheral areas was introduced. Support limited and not State aid.
Finland	The 2003 Act confirmed the move towards an all-country approach to regional policy. However, the specific needs of traditional problem regions continue to be recognised.	Traditional problem regions remain in the north and east, with marked regional disparities Policy aims to safeguard settlement structures and maintain regional balance.
France	France has tended to have a nationwide spatial development focus rather than a problem region orientation.	Regional aid policy (PAT) is spatially-focused, but broader regional development efforts are country-wide.
Germany	*Land*-level economic development policies operate in each *Land*. However, GA-funded activities focus on the designated GA Areas	GA regional policy takes the form of spatially-targeted regional aids and support for economic infrastructure.
Greece	All of Greece is eligible for support, although certain projects/project types are either not eligible in Athens and Thessaloniki or qualify for reduced award ceilings in such areas.	The spatial focus of policy (limiting support to areas outside Region A (centred on Athens and Thessaloniki) has been eroded over time.
Ireland	Up until 1999, the whole country was eligible for regional aid; the emphasis was on national rather than regional development. The whole country remains eligible for support but with more regional differentiation.	The regional differentiation introduced in 2000 under EU regional policy and the regional aid guidelines has led to a more differentiated national regional policy. This has been reinforced by the NSS.
Italy	The national regional policy focus remains on the Mezzogiorno.	Until 1992, policy took the form of special intervention in the *Mezzogiorno*. For the rest of the 1990s, the focus was on disadvantaged areas *throughout* the country. For 2000-06, policy is again targeted at the *Mezzogiorno* but with the focus on endogenous potential.
Luxembourg		Regional policy in Luxembourg is limited to designated aid areas.
Netherlands	Regional policy now focuses on the economic priorities of *all* Dutch regions; the aim is to support developments viewed as especially beneficial nationally.	Regional aid remains limited to designated aid areas, especially in the north. However, traditional, spatially-targeted policy instruments are being phased out
Portugal	In Portugal the whole country is eligible for support, but with more rate discrimination than in the past between Lisbon, the coastal strip and the interior of the country.	Underdeveloped areas have recently been designated. PRASD measures aim to promote more balanced development across Portugal by favouring these disadvantaged areas.
Spain	An important national element of regional policy is the inter-territorial compensation fund (FCI) which aims to fund regional investment and correct regional disparities resulting from differing income levels.	The regional investment grant is only available in designated aid areas, though these are relatively widely drawn in Spain (covering areas holding three-fifths of the national population).
Sweden	Regional growth programmes, which have become an increasingly important element of regional policy in Sweden, cover the entire territory.	There is more stress on developing growth potential in *all* regions, but traditional problem areas are still supported (via regional aid, for instance)
United Kingdom	Regional policy is increasingly about promoting regional growth and competitiveness at the regional level across England and, indeed, via the devolved administrations, across the entire country.	Regional aid policy remains limited to the designated aid areas.
Norway	The new policy approach focuses on all regions, with the county level responsible for the development and implementation of regional development programmes through which economic development flows.	Regional policy used to take the form of regional aid policy focused on designated aid areas. Now policy takes account of a wider range of measures, though the aid component of policy remains spatially-targeted.

3. THE POLICY RESPONSE: AN OVERVIEW OF RECENT CHANGE

The aim in this section is to review the national regional policy response to this changing perception of the regional problem, focusing on developments since the start of 2003. As an initial step, Table 3.1 sets out the legislative changes which have been introduced with respect to regional incentive policy, alongside broader policy developments.

It can be seen that, for the vast majority of countries, there have been no significant legislative developments since the approval of regional aid regimes by the competition policy authorities for the 2000-06 period. This reflects that fact that all but one Member State agreed its aid map and support package with DG Competition for the full period. The exception was ***Germany*** where, as discussed last year, the authorities sought approval only for 2000 to 2003, in line with the standard four-year policy cycle.[11] In the event, having undertaken a review of the regional aid map which suggested that change at the *Land* level would be minimal, it was decided to resubmit the same map and regional support package for the 2004-06 period. This course of action had been encouraged by the Competition Policy Commissioner as a means of gaining rapid approval of the map. However, while map approval was relatively straightforward, there were lengthy negotiations with respect to the support package and, in particular, the aid available for economic infrastructure. At the time of writing, agreement has still not been reached on support for regional airports and technology parks/innovation centres. One last point to note about these developments is that, while the regional aid map was unchanged, new E areas were designated in the old *Länder* along the borders with the new *Länder* and the Czech Republic; these areas can offer SME or *de minimis* support and benefit from a special regulation which limits the level of aid that can be awarded to projects relocating across borders.

Elsewhere, new regional incentive legislation was introduced in Belgium and Portugal. In ***Flanders***, a new framework law for investment aid (both regional and for SMEs) was introduced in January 2003. This replaced a Belgian framework law (the 1970 Economic Expansion Law) and is part of the devolution process in Belgium. It also responded to pressures from DG Competition that state aid under the 1970 law should be withdrawn by the end of 2003. At a substantive level, the new legislation is interesting for adopting a two-tier approach to support for large firms in the designated aid areas: a budget-limited tender-based system (along the lines of Law 488 support in Italy) for investment projects of between €250,000 and €8 million; and a system of discretionary assistance for investment projects of between €8 million and €25 million (projects deemed to be of “strategic importance”). The aim has been, on the one hand, to introduce specific budget limitations on the award of regional aid and to make the regional aid system more transparent and automatic (within the budget limits set); and, on the other, to retain a degree of flexibility with respect to awards for strategically-important projects.

[11] In addition, the German authorities felt it inappropriate to designate aid areas through to 2006 on the basis of data drawn from the 1996-98 period.

Table 3.1: Recent Legislative Change and Broader Policy Reviews (2003-04)

Country	Detailed Incentive Legislation	Broader Policy Review/Change
Austria	No change. *Richtlinien* apply for the full 2000-06 period. The only remaining regional investment aid is the ERP loan.	No change. Following the demise of the RIP in 2000, regional policy is innovation-oriented and regionally-delivered
Belgium	Decree of 31 January 2003 provided a new investment aid framework in Flanders; new regional aids introduced during 2003. New framework decree in Wallonia on 11 March 2004 and in Brussels on 1 April 2004.	The new Flemish Decree distinguishes between SME aid and regional aid for large firms. The latter is tender-based for small projects, discretionary for large. Budgetary constraints impact on awards in Wallonia
Denmark	No change. Regional aid has not been available in Denmark since 1991.	May 2003 White Paper. Designation of peripheral areas, new policy instruments for these areas, more emphasis on policy coordination. Local government reform?
Finland	No change. The Aid to Business Act came into force on 1 January 2001	2004 Government Decision set out new government's regional policy targets: to reinforce regional competitiveness; safeguard the country's service structure; and achieve balanced regional structure.
France	No change since 2001 (*décret* 2001-312 of 11 April 2001 plus two *arrêtés* of 1 June 2001).	2002 change of government led to new (CIADT) regional policy goals: increased international networking (role of towns); an 'all region' approach; regional contributions to wealth creation; equality of opportunity; new State-local authority agreements.
Germany	Annual GA *Rahmenplan* provides policy framework. EC State aid approval of 33rd Plan (2004-7) except in respect of some infrastructure aspects. Investment Allowance extended to 2005 and 2006.	Debate on future of GA regional policy: objectives, institutional framework, funding and instruments. Link to broader review of Federal-*Land* relations and tasks.
Greece	No change. Last major regional aid law was Law 2601/1998. New law in preparation by new government.	Broad policy developments determined by CSF III for 2000-06.
Ireland	No change. The main incentives were approved for EC State aid purposes in October 2000.	Broad policy developments determined by 2000-06 National Development Plan and 2002 National Spatial Strategy. Reviews of Industrial Policy (2003) and Enterprise Strategy (2004).
Italy	No change. Law 488 implementation decrees on 6 March, 8 May, 3 July 2000 and 7 October 2002. Fiscal credit under 2001 Finance Law.	National regional policy and the Structural Funds are closely interrelated and are increasingly being aligned (common objectives and procedures).
Luxembourg	No change. Law of 22 December 2000 last amended regional aid form, coverage, and ceilings	Separation of aid legislation in line with EU State aid frameworks. New environmental aid law (of 21 January 2004).
Netherlands	No change since Regional Investment Project Grants Decree 2000 (Statute Book 22.08.2000, 354).	New policy memorandum of 2 July 2004, together with interdepartmental review of Dutch regional policy. Concentration on special projects/areas of national benefit
Portugal	Revised legal basis for the SIME and SIPIE: see, for instance, Portaria 262/2004 of February 2004 and Portaria 94/2004 of January 2004.	2002 Programme for Productivity and Economic Growth (PPCE), led to May 2003 economic programme (PRIME). Programme for disadvantaged regions (PRASD) published in 2003; map agreed in 2004
Spain	No change to legal basis of Regional Investment Grant.	Broad policy developments determined by SF programmes 2000-06
Sweden	No change. Ordinance of Regional Aid last amended 1 January 2000; new Transport Aid guidelines as from 11 May 2000.	New Regional Policy Bill, *A Policy for Growth and Viability throughout Sweden*, passed in December 2001. Regional Growth Programmes from 2004.
United Kingdom	No legislative change. Following a DTI review, Regional Selective Assistance and Enterprise Grants were replaced in England by Selective Finance for Investment (April 2004). RSA in Scotland had previously been revised in 2002.	'*Modern Regional Policy*' consultation document (2003). Devolved policy frameworks – England: regional focus on growth rates via PSA and RDA strategies; Scotland, Wales and N Ireland: distinct economic strategies developed (2000-02).
Norway	No change to legal basis but budget and operation of regional aid regionalised from the start of 2003.	New all-encompassing approach based on regionalised budgets and delivery; growing stress on innovation; reviews prepared for 2005 White Paper.

Moves to replace the national framework law have also been made in Wallonia (via four *décrets* adopted on 11 March 2004) and in the Brussels-Capital region (*ordonnance* of 1 April 2004). In ***Wallonia***, the key elements of the reform included the ending of the automatic granting of aid to large firms (a response to budgetary pressures), the integration of sustainable development principles into the available support and the introduction of support for innovative approaches to economic development, particularly the clustering and networking of companies. The implementation of the four new *décrets* is unlikely to be completed before the start of 2005, pending the adoption of necessary secondary legislation. All aid applications submitted prior to 1 June 2004 were processed under the previous aid regime. In ***Brussels***, the new legislation relates only to investment aids for SMEs. As in Wallonia, secondary legislation will need to be passed before the new law takes effect.

In ***Portugal***, new regional aid legislation followed on from a change of government in 2002, the subsequent introduction of an economic austerity programme and the related revision of the operational programme for the economy (now renamed the Programme of Incentives for the Modernisation of the Economy, PRIME). The main regional aid, the SIME, was amended in 2004 to increase the speed of decision-making, reduce the level of discretion in award, target aid more effectively (with rate supplements for project location, SMEs, young entrepreneurs and environmental merit) and introduce mechanisms to reward performance (through a completion premium which reduces the amount of any award to be repaid in line with the extent to which project objectives are met). At the same time, the innovation component of the scheme was separated out as a distinct incentive – SIME Innovation.

While regional incentive-related changes since the start of 2003 have generally been limited, broader policy reviews have been much more significant. Table 3.1 shows that there have been White Papers, Government Decisions, policy memoranda and consultation documents in a range of countries which, taken together, herald important new policy developments. A country-by-country review of change is provided in Section 3.1 while the main policy themes to emerge are discussed in Section 3.2.

3.1 A Country-by-Country Review of Change

In ***Austria***, recent regional policy change has been minor, in part because the active component of domestic regional policy is limited. The ERP Regional Programme, a low-key soft loan scheme, is the only nationally-funded regional aid and continues to operate within the regional aid framework approved by DG Competition for the 2000-06 period. Other nationally-funded measures of significance to regional development (like the *RIFupgrade* and *REGplus* schemes) tend to be innovation-oriented and available country-wide. Map-based policymaking is not favoured in Austria; indeed, it is of significance mainly in a Structural Fund context where each of the nine *Länder* has an EU co-financed Structural Fund programme. While recent changes have not been important (reflecting the mid-term nature of the current policy period), there are significant concerns about the future of regional policy, not least given Austria's geographic location. While enlargement may bring opportunities to the eastern regions, it has also created uncertainties which are feeding into more general concerns about structural change and low growth rates. For this reason, the debates about the future of the Structural Funds and, just as important for a country on the borders of the new Member States, national regional aid (and tax) regimes are viewed as both important and interrelated.

In ***Belgium***, responsibility for regional policy lies with the sub-national tier – the Flanders, Walloon and Brussels regional governments. Up until recently, the legal basis for regional policy (which, in the Belgian context, is primarily regional aid policy) was provided at the national level via the 1970 Economic Expansion Law, but with policy implementation through regional-level decrees. As mentioned above, this framework legislation has now been regionalised in Flanders and there are also moves to replace the national framework with a regional framework in Wallonia. This is part of the ongoing process of regionalisation in Belgium under which economic development responsibilities lie exclusively with the regional governments. One other point to note is that, notwithstanding the policy agenda to reduce aid to business, regional aid budgets remain under pressure. This was one of the factors underlying the move to a budget-limited approach in Flanders; it is also significant in Wallonia where recent reports on the operation of the Economic Expansion Law have highlighted the very high demand for aid.

In ***Denmark***, a Government White Paper published in May 2003 (*The Regional Growth Strategy*) has been translated into a series of policy initiatives. As has been the case since 1991 when regional aid was abolished, the main policy focus is on maximising the contribution of every region to national growth, primarily through measures to enhance the business environment. However, an interesting new dimension is that, with a view to ensuring that current regional disparities remain narrow, a degree of preferential treatment has been introduced for peripheral areas which are felt to have become separated from the centres of growth. The areas concerned are the poorest 15 travel-to-work areas measured by work-related income per head plus any other areas with per capita taxable income of less than 80 percent of the national average. Both area types now benefit from an additional tax rebate for long-term, long-distance commuters, while the 15 poorest areas are eligible for support to help them set up Regional Growth Coalitions to enhance collaboration at the sub-regional level and allow the areas concerned to develop and implement appropriate regional development strategies. That said, neither measure is significant in expenditure terms; the estimated tax loss from the commuter concession is just €2.5 million per annum, while direct central funding of projects put forward by the Regional Growth Coalitions is only €2.7 million per year. Also of note in Denmark is the fact that a potentially major reform of local government is currently being negotiated. This seems likely to result in fewer but larger regions which may be given economic development responsibilities. This could have significant implications for future regional policy.

In ***Finland***, a new Regional Development Act (602/2002) came into force at the start of 2003. The Act confirmed the longer-term shift of policy away from issues of territorial balance, though these are still taken into account as secondary goals, and towards the stimulation of regional competitiveness across the country. Following the election of March 2003, the regional policy priorities of the new government were published in a January 2004 Government Decision. This carried forward the prevailing policy themes and identified three general policy targets: *to reinforce regional competitiveness* (with, for instance, more stress on regional innovation policy); *to safeguard the service structure throughout the country* (ensuring the availability and quality of basic local government services); and *to achieve a balanced regional structure* (via the development of regional centres and urban policy). The successful implementation of these targets was seen to rest on four broad premises: that policy measures must be differentiated to take account of the different needs of different regions; that national regional development goals are of primary importance and that policy at the regional and EU levels must complement and support national policy; that the implementation of the government's targets is a matter for both central and local government, with particular stress on the importance

of horizontal coordination at the regional level; and that a key focus of policy delivery should be to improve policy effectiveness through coherent joint actions undertaken by sectoral ministries in line with the regional development targets laid down. Finally, the Government Decision increased regional development allocations over the 2004-07 period and committed the Government to maintaining overall funding thereafter.

In ***France***, a reorientation of regional development policy was announced in December 2002 by the CIADT (the Interministerial Committee for Regional Development Policy) following a change of government the previous spring. Against a background of EU enlargement, internationalisation and decentralisation, five broad policy objectives were highlighted: *to encourage the international orientation of regions*, building on the role of large towns as motors of the economy; *to ensure that all parts of France participate in the development of the national economy* (especially rural areas); *to contribute to new wealth creation through regional development* (on the one hand, by bringing together public and private resources within “poles of excellence” and, on the other, by enhancing the forward-looking aspects of policymaking); *to correct regional inequalities and focus on equal opportunities* (rather than equity); and *to review and revise the relationship between central and local government*. In a number of respects, these objectives simply carried forward previous policy goals; however, they included some quite significant shifts of emphasis. In particular, more importance is now attached to the role of central government in carrying forward strategic actions, more stress is now placed on rural policy and the reform of central-local policy relations is now given more prominence. During 2003, a work programme was developed with a view to progressing the implementation of these objectives.

In ***Germany***, the relatively limited changes made to the regional policy GA (joint Federal-*Land* task) have already been noted. In addition, and as recorded in Table 3.1, the decision has been taken to extend the tax-based Investment Allowance, which supports manufacturing investment in the new *Länder* outside the GA framework, for a further two years to the end of 2006. This followed a debate about the efficacy of the scheme which tended to divide along east-west lines. While favoured in the new *Länder*, the Investment Allowance tends to be viewed more negatively in the west, partly because it runs counter to the desire to operate a uniform regional policy framework across the whole country but also because, due to the German system of fiscal equalisation, it is in effect financed mainly by the wealthier *Länder*. In addition to these developments, more fundamental debates are continuing about the future of regional policy in Germany – goals, instruments, appropriate institutional framework. These debates also relate to broader discussions over whether changes are needed in Germany's federal structures. In this context, a Federal Commission has been established to examine the tasks and relations of the *Bund* (federal) and the *Land* levels of government.

In ***Greece***, regional development is supported by the Community Support Framework for 2000-06 (CSF III) and also, as far as regional incentives are concerned, by Development Law 2601/98. The CSF has 13 regional programmes (one for each region) and 11 sectoral programmes, with the regional programmes representing just over one quarter of the CSF budget. Following a change of government early in 2004, consideration is being given to the introduction of a new Development Law. An internal committee has been established within the Ministry of Finance and the Economy to this end but it has not yet completed its deliberations.

In ***Ireland***, the central elements to the approach to regional development have not changed. First, there is the 2000-06 National Development Plan (NDP) which, by addressing infrastructure bottlenecks and regional imbalances, aims to reduce

regional disparities between and within the two NUTS II regions into which the country is now divided and maximise the potential for these regions to contribute to national prosperity. Second, there is the 2002 National Spatial Strategy (NSS) which emphasises the role of strong urban centres in successful regions, the importance of linking urban centres with their hinterlands, and the need for regions to build on their established strengths. A particular stress has been placed on developing designated regional 'gateways' and 'hubs'; by targeting infrastructure provision, the aim is to broaden the number of areas that can provide competitive locations for international firms. And third, there is the ongoing promotion of a regional focus to the activities and strategies of the main development agencies in Ireland – IDA-Ireland and Enterprise Ireland. In addition, the past year or so has seen traditional planning and development approaches linked increasingly to the regional competitiveness and innovation agendas. The Government's Review of Industrial Performance, published in September 2003, underlined the importance of rooting regional economies in real regional capacities and strengths and of ensuring that high-value enterprises have access to appropriate human resources, infrastructure and services (as facilitated by the NSS approach to regional gateways and hubs).

In ***Italy***, there has been a renewed emphasis on the development of the *Mezzogiorno* in recent years, with efforts concentrated on creating appropriate conditions to allow the region's endogenous potential to be exploited and its international competitiveness to be enhanced. In line with this, problem regions are now referred to as underutilised areas rather than disadvantaged or depressed areas. The policy focus has shifted towards infrastructure investment (transport, energy, water, but also investment in the knowledge economy), bottom-up strategies for economic development (including *Contratti di Programma*, *Patti Territoriali*, *Contratti d'Area*, PIT and PISL) and measures to improve the territorial marketing of the *Mezzogiorno* and attract FDI (for instance, through newly-developed localisation contracts); and away from direct business aid provision. Recent changes have mainly related to the implementation of regional policy. The Government has acted: to strengthen the programming and implementation capacity of those administrations in charge of public investments in the underutilised areas (part of the ongoing regionalisation process in Italy which has also seen a strengthened coordination and facilitation role for the national level); to accelerate investment expenditure in the *Mezzogiorno* by simplifying bureaucratic and funding procedures (with, for instance, the creation of a single fund for regional development, the *Fondo Unico per le Aree Sottoutilizzate*, FAS); and to align national policy progressively with EU policy by introducing, through the FAS, Structural Fund procedures into domestic policies (monitoring, evaluation, incentivising and sanctioning mechanisms along the lines of the performance reserve and automatic decommitment rules).

In ***Luxembourg***, the last significant regional policy developments date back to 2000 when a new regional aid map and associated aid regime was approved by the European Commission. The regional aid law (Law of 22 December 2000) was the first instance where a specific aid component was separated out from the more general 1993 Framework Law. More recently, a distinct law has been developed for environmental aid (Law of 21 January 2004), part of a broader process of aligning domestic measures with relevant State aid guidelines.

In ***the Netherlands***, two major policy papers on the future of domestic regional policy were published on 2 July 2004: a new policy memorandum (*Peaks in the Delta: Territorial Economic Prospects*) prepared by the Ministry of Economic Affairs; and a broader interdepartmental review (IBO) of the ongoing justification for regional policy. The papers heralded two important policy changes: first, a refocusing of regional economic policy away from the traditional problem regions in the north and towards

economic priorities in all Dutch regions; and, second, a move towards a far more selective policy approach, with clear choices being made as to where, in the regions, national policy efforts should be directed. The new approach acknowledges the need to improve national growth performance and international competitiveness and concludes that, to this end, spatial policy must be selective and must focus on areas where the national return is greatest. From a national perspective, the main regional economic priorities are: to create an adequate number of high quality industrial estates; to progress the competitive position of the two Dutch “mainports” (Schiphol airport and the port of Rotterdam); to enhance accessibility to key urban centres and growth points via targeted infrastructure provision; and to coordinate spatial policy with ongoing developments in related policy fields (innovation, urban, tourism). Given this context, the Ministry of Economic Affairs has reviewed regional strengths and weaknesses and identified where national priorities lie in each region – the “peaks” in the Delta. It should be noted that the policy memorandum is a strategy document rather than an implementation plan. It forms the basis for discussions with the regions and others out of which agreed policy actions will emerge. Moreover, a concrete financial plan for the post 2006 period will not be agreed until decisions have been taken about the future of the Structural Funds in the Netherlands and about future domestic allocations further to the IBO review.

In ***Portugal***, a new (centre-right) government entered office in April 2002. As already mentioned, tough austerity measures followed and, in July 2002, a new Programme for Productivity and Economic Growth (PPCE) was approved, aimed at strengthening the competitiveness of the economy and promoting productive investment. This then impacted on the philosophy and procedures underpinning the EU co-funded operational programme for the economy, which was revised in May 2003 and renamed the PRIME. The main objectives of the PRIME are to encourage more use of risk capital; reward high value added products; reform the administration of business support; and develop partnerships with financial institutions. Under the PRIME, a Programme for the Recovery of Depressed Regions and Sectors (PRASD) has been developed to address unemployment and underinvestment problems in specific areas and sectors. A map of underdeveloped regions was approved in early 2004; this distinguishes between ‘disadvantaged’ areas, which qualify for general measures, and ‘depressed’ areas, which are earmarked for more specific initiatives. Policy favours both sets of region through regionally-differentiated fiscal, financial and social benefits, through higher rates of award under PRIME-funded investments and through the provision of risk capital funding. Depressed areas also benefit from support targeted at specific sectors. One last point to note is that a Portuguese Investment Agency (API) was established in November 2002 as part of a national strategy to foster favourable conditions for productive corporate investment and to increase the level of direct investment in Portugal.

In ***Spain***, regional policy is strongly influenced by, and embedded within, the EU cohesion policy framework. Together, the Structural Funds and the Cohesion Fund provide over €46 billion in funding over the current programming period, around 1.4 percent of national GDP. Even the two main ‘national’ components of regional policy are closely related to the Structural Funds. The Inter-territorial Compensation Fund, which helps regional governments finance infrastructure investments, is available only in the Objective 1 regions; while the Regional Investment Grant, the main regional incentive in Spain, is co-financed by the Objective 1 programme. There have been no significant changes to either of these measures since the start of 2003; indeed, there have been no significant changes to the Regional Investment Grant for some time. This reflects general satisfaction with the operation of the scheme and the perceived importance of stability and familiarity for the business community. Notwithstanding this lack of direct regional policy change, recent years have seen a

number of important broader developments, including the completion of the regionalisation of national government powers in Spain, with the allocation of education (in 2000) and health (2002) responsibilities to the regions. In addition, the March 2004 change of government has resulted in some restructuring of national ministries and may lead to further regionally-oriented developments through, for instance, the reform of the Senate and through placing more stress on regions as motors of national economic development.

In ***Sweden***, a regional policy Bill in December 2001 (2001/02:4) brought together traditional regional policy (mainly incentive-based and focused on designated aid areas) and newer regional industrial policy (built around programme-oriented Regional Growth Agreements for regions throughout the country). The resultant regional development policy had, as its overall objective, "*well functioning and sustainable local labour market regions with an acceptable level of service in all parts of the country"*. Compared to previous legislation, the 2001 Bill involved: an increased stress on a whole country approach with a view to stimulating regional development in *all* regions; a greater focus on issues of regional competitiveness, growth and employment; the more explicit involvement of a wider range of national policy areas in regional development; a clear distribution of responsibility between government and local authorities, with municipalities within county boundaries being encouraged to combine for economic development purposes; a new emphasis on local labour market areas in order to enhance the potential and capabilities of every region; and the encouragement of programming and benchmarking (with a view to learning and re-applying experience in policy design and implementation). On the other hand, traditional regional aids targeted at designated aid areas remained in place and, subsequently, have continued to operate largely as before. The period since the start of 2003 has seen the continued implementation of the 2001 Bill. Particular stress is being placed on effective policy coordination across sectors (which it is recognised is difficult to achieve) and on the core role of programming at the regional level (with Regional Growth Programmes introduced from the start of 2004). Looking to the future, a major parliamentary review of administrative structures in Sweden is being carried out which may well impact on the division of responsibilities between government levels. This has obvious potential implications for the future delivery of regional policy.

In the ***United Kingdom***, an important consultation document was published in March 2003, *A Modern Regional Policy for the United Kingdom*.[12] This stressed that productivity was the fundamental driver of change at both national and sub-national levels and thus argued that regional policy had to be a policy for 'all regions'. More than this, productivity improvements are seen to require both a more coordinated policy response across government and a better evidence base for making decisions. The Government's regional strategy has three strands: macroeconomic stability; microeconomic reform (targeting specific market failures); and a regional policy framework of devolution and decentralisation (empowering regions to deliver locally-led policies within a clear framework of accountability). In line with these principles, the Department of Trade and Industry (DTI) has reshaped its goals and organisation and reviewed its policy instruments. Its business aid schemes have been regrouped to reflect the areas in which businesses are most likely to need help: innovation, best practice, raising finance and regional financial support. At the same time, Regional Selective Assistance (RSA), previously the core regional aid, has been replaced in

[12] The Treasury, the Department of Trade and Industry and the Office of the Deputy Prime Minister (2003), *A Modern Regional Policy for the United Kingdom*, (DTI URN 03/649) available at www.dti.gov.uk/europe/consultation.pdf.

England by Selective Finance for Investment. Amongst other things, this favours applications which demonstrate productivity growth. Underpinning these various developments is the 2002 Regional Growth Public Service Agreement[13] which aims to improve regional economic performance and reduce growth rate differentials in England. This has directed attention at policies across a range of departments which influence regional growth rates. At the regional level, the powers (and budgets) of the English Regional Development Agencies have been significantly increased and preparations are continuing for the introduction of an elected Regional Assembly in the North-East. In Scotland, Wales and Northern Ireland, policy continues to develop in distinctive ways. In Scotland, RSA was revised in 2002 to focus it more on indigenous, technology-oriented companies and high quality jobs and there has been a recent policy focus on the impact of an ageing and falling population on economic development; in Wales, a national economic development strategy was launched for the first time in 2002; and in Northern Ireland, medium-term strategic priorities for the Province were published in June 2002, followed by an associated action plan in March 2003.

Finally in ***Norway***, regional policy is in a period of considerable change. Following the election of a centre-right coalition in autumn 2001, a new approach to regional development has been progressively introduced. In broad terms, the emerging policy is characterised by a new philosophy involving: a focus on balanced development involving population growth in *all* regions; a shift away from selective, centrally-administered, grant-based assistance in favour of a broader bottom-up approach, reflecting local needs and requirements; related, a regionalisation of regional development budgets and responsibilities; a greater stress on innovation, both nationally and in the regions; an emphasis on measures to improve the business environment (tax cuts, infrastructure provision) rather than on direct business aid; and changing administrative responsibilities for regional development (with, for instance, the county level taking the lead in the regional partnerships charged with developing and implementing regional development programmes). In this context, responsibility for economic development budgets was handed over from the Ministry of Local Government and Regional Development to the counties from 2003. Four-fifths of the Ministry's annual budget now goes directly to the counties. A new regional policy White Paper is planned for 2005. In the lead-up to this, a number of groups and committees have reported. Two main themes have emerged: the further regionalisation of policy responsibilities; and the broadening of the scope of regional policy (with more stress on policy coordination at the regional level). Consideration is also being given as to how the social security concession might best be replaced. This scheme had been a core element of the Norwegian approach to providing support for the north but fell foul of the competition policy authorities and is in the process of being withdrawn (and replaced by a transport aid) everywhere except in the far north.

3.2 A Thematic Review of Change

The above country-by-country review confirms that, notwithstanding the relative stability on the regional incentive front and the fact that the operation of the Structural Funds is currently concerned more with fine-tuning ongoing measures rather than considering new policy initiatives, there has indeed been a significant amount of broader regional policy change in recent years. More than half the countries under

[13] Shared jointly by the three Departments that co-authored *A Modern Regional Policy for the United Kingdom*

review – Belgium, Denmark, Finland, France, the Netherlands, Portugal, Sweden, the United Kingdom and Norway – have produced new regional policy papers or legislation, while many of the other countries have been engaged in broader policy debates and discussions in the lead-up to the post 2006 policy period.

The main policy themes to emerge reflect the changes which have been taking place in the perception of the regional problem, as discussed earlier. In particular, there is seen to be a need to respond to international competitive pressures created by globalisation and European integration as well as to domestic pressures arising from decentralisation and devolution and from the growing requirement, not least in a period of lower economic growth in many countries, to demonstrate value-for-money in public spending.

Perhaps the key common theme has been the increased emphasis on the need to enhance growth, competitiveness and productivity at the regional level – that is, stressing the efficiency justification of regional policy more than its rationale in equity terms. This is seen very clearly in the new ***Dutch*** spatial policy memorandum which moves regional economic priorities away from the traditional problems in the north and towards making regional choices which maximise the benefit to the national economy. In ***Denmark***, too, the main policy focus (as confirmed in the 2003 White Paper) is on maximising the contribution of every region to national growth while, in ***Finland***, the new Regional Development Act and subsequent Government Decision place particular policy stress on the stimulation of regional competitiveness across the country. The reorientation of regional policy in ***France*** has also seen the CIADT emphasise the need for all regions to contribute to wealth creation. This is also an increasingly prominent theme in ***Ireland*** (where the NDP aims to maximise the contribution of the regional level to national prosperity) and ***Italy*** (where recent policy efforts are concentrated on enhancing endogenous growth potential and thus increasing the competitiveness of the regions which make up the *Mezzogiorno*). In similar vein, the 2001 regional policy Bill in ***Sweden*** placed a greater policy focus on regional competitiveness, growth and employment. In the ***United Kingdom***, too, the policy stress is on productivity as the fundamental driver of change and, related, on measures to improve regional economic performance. Finally in ***Norway***, the policy aim (following the 2001 change of government) is to produce balanced population growth across all regions. A summary overview of the relative importance of equity and efficiency objectives is provided in Table 3.2

Table 3.2: Regional Policy Objectives

	Equity-based	Efficiency-based
Austria	Regional policy has always had a low profile in equity terms (perhaps related to the existence of fiscal equalisation mechanisms). There are no significant aid schemes targeted at designated aid areas.	Regional economic development is closely associated with innovation policy. At the federal level this tends to be country-wide in orientation. The *Land*-level also plays a significant role.
Belgium	Regional policy is mainly associated with the impact of industrial structuring and decline – especially in Wallonia where the prime policy objective is job creation.	In Flanders, the emphasis is on attracting "strategic investments" (R&D, new production methods etc) and there is also an explicit emphasis on FDI.
Denmark	May 2003 White Paper stated that a number of peripheral localities still lag behind and should receive extra support. First mention of interregional equality since 1991.	Since 1991, regional policy has been a means to increase regional and hence national efficiency. Interregional equality now also an issue.
Finland	The 2003 Act retained territorial balance and the reduction of interregional differences as secondary policy goals. Policy also aims to safeguard country-wide service structures.	The 2003 Act confirmed the ongoing shift towards the stimulation of regional competitiveness across the country, as did the Government Decision of January 2004.
France	The new government (2002) favours wealth creation over redistributive approaches and equal opportunity over equality.	All areas should contribute to wealth creation through regional development; each region should have the chance to exploit its potential.
Germany	The main policy aim is to ensure that structurally-weak regions can take an equal part in economic development through addressing locational disadvantages. Also, strong fiscal equalisation element in Germany	Regional policy is seen as a component of overall economic policy in that it contributes to economic growth and employment creation and is also viewed as strengthening competitiveness.
Greece	The overt objective of policy is to promote productive investment in the less-developed regions and to encourage the relocation of activities away from Athens.	However, over the years, the range of projects eligible for support in Athens and Thessaloniki has expanded significantly.
Ireland	The 2000-06 NDP aimed for more balanced regional development in order to reduce disparities and increase the contribution of the two regions to national prosperity	Both national economic policy and regional policy aim to reinforce the ongoing shift to a growth-oriented, knowledge-based economy
Italy	The strategy for the *Mezzogiorno* responds to its credit supply problems and infrastructure deficiencies. It aims to support infrastructure investment and bottom up strategic initiatives.	Former depressed or disadvantaged areas are now referred to as under-utilised areas. This emphasises the focus on exploiting potential and increasing competitiveness.
Luxembourg	No significant equity component; regional policy is largely synonymous with national industrial policy.	Policy aims are fundamentally affected by the size of the country and the fact that it is essentially a border region; this explains the focus on regional competitiveness.
Netherlands	Regional disparities are viewed as minimal and not such as to justify a focus on problem regions	Policy is essentially efficiency-based. The aim is to make policy choices to derive the maximum national economic benefit.
Portugal	A balance has had to be struck between promoting economic competitiveness and improving the quality of life, protecting the environment and promoting social integration.	The main focus of the PPCE is to promote economic growth and productivity across the country as a whole.
Spain	There is a constitutional commitment to balanced regional development – with a more equitable distribution of income and a fair level of economic equilibrium.	
Sweden	The 2001 regional policy bill saw a weakening of the traditional support for peripheral areas, though this remains a secondary policy objective.	The prime aim is to have well functioning and sustainable labour market regions with an acceptable level of service in all parts of the country.
United Kingdom	The aim to reduce the persistent gap in growth rates between regions has introduced an equity element into the objectives of policy.	By viewing productivity as the fundamental driver of economic change, the aim is to make sustainable improvements in economic performance in all regions while reducing the gap in growth rates between regions.
Norway	There has been a shift from a top-down equity-oriented regime to a bottom-up approach in which the aim is that all parts of the country should experience population growth.	The prevailing philosophy is that all regions should have the opportunity to exploit and develop their own resources.

Although the policy pendulum has certainly swung firmly towards efficiency objectives in recent years, it would be wrong to suggest that equity considerations are no longer important. Even considering just those countries which have experienced recent change, equity aspects continue to play a role. For instance, in ***Denmark***, areas on the periphery which are believed to have been separated from centres of growth have recently been designated and now qualify for (albeit low-key) support for long-distance commuters and for strategy development. In ***Finland***, the new policy approaches retain territorial balance and the need to safeguard the service structure throughout the country as secondary objectives of policy. In ***France***, the CIADT included the correction of regional inequalities as one of five main policy goals announced in December 2002, though focusing on equality of opportunity rather than equity *per se*. In ***Portugal***, the new PRASD aims to help the most disadvantaged areas reach a position where development strategies can be sustained. In ***Sweden***, the achievement of an acceptable level of service throughout the country continues to be a goal of policy. In the ***United Kingdom***, the regional growth PSA aims to reduce regional growth differentials in England and there is also a significant equity component to policy initiatives in Scotland, Wales and Northern Ireland. Finally, nearly all countries continue to operate regional aid packages which target the most disadvantaged regions.

A second, related, theme is that the scope of regional policy has widened nearly everywhere, moving far beyond regional incentives to include the broad range of policy fields that impact on regional development. This, in turn, has made policy coordination a growing concern. In the ***United Kingdom***, for example, there is a clear recognition that “connected” solutions are required if productivity improvements are to be achieved; the fact that three government departments have signed up to the regional growth PSA underlines this point. In ***Denmark***, an important rationale for the policy stress now placed on sub-regional and inter-regional network building is that this not only improves sub-national policy coordination but also leads to enhanced horizontal cooperation within central government. In ***Finland***, the regional development targets of the new government extend well beyond regional policy in any narrow sense. Sectoral ministries are required to act in a more coordinated way to meet the regional development goals laid down. In ***Sweden***, too, the need for effective policy coordination across sectors is well recognised; the 2001 regional policy Bill lists eight policy areas which are expected to coordinate their activities to regional development ends. The issue of policy coordination is discussed further in Section 5.

A third common theme, and one discussed earlier, has been the move towards an “all-region” approach to regional policy. The policy focus is no longer solely on narrowly-defined traditional problem regions but, in most countries, now also extends to regions throughout the country. Related to this, the role of the regional level has been enhanced. Increasingly, it is charged not only with developing an appropriate regional economic development strategy (normally in a partnership-based, programme-oriented environment) but also has the responsibility of delivering on that strategy. On the other hand, it would be wrong to assume that national-level inputs have become less significant. In ***Italy*** and ***Denmark***, for example, the coordination and facilitation role of national authorities has, if anything, increased as policy responsibilities have become more regionalised. In ***France***, too, the role of central government has grown in importance in recent years and, in particular, its capacity to undertake strategic actions. The relative weight attached to the regional and central levels has also changed in ***Finland***; while regional strategy development remains important, it has been made clear that it must be aligned with the goals and priorities of the national government. In the ***United Kingdom***, the government is moving away from micro-managing regional policy; however, the national level continues to have a

key role in maintaining overall policy coherence and efficiency. In the ***Swedish*** context, as elsewhere, tensions between regional priorities and national goals are apparent; on the one hand, the introduction of the new Regional Growth Programmes implies that regional variation is taking precedence over sectoral uniformity; on the other, the fact that these programmes are not legally binding and must be approved by central government suggests the opposite. Finally, in ***the Netherlands***, policy choices are clearly the responsibility of the centre; in the new policy memorandum the Ministry of Economic Affairs has identified where the national interest lies and, albeit in consultation with the regions, is making the necessary policy choices on this basis.

A fourth general theme relates to the increased emphasis being placed on urban centres in regional economic development. While in part related to a growing general stress on territorial development issues, the focus on the economic development role of towns and cities reflects their perceived importance in the generation of regional growth and productivity. In ***Ireland***, the National Spatial Strategy emphasises the significance of strong urban centres in successful regions and the need for them to be linked to their economic hinterlands; regional gateways and hubs have been designated as a means of targeting infrastructure support and increasing the number of competitive international locations in the country. There is a similar policy focus in ***Finland*** where the Regional Centre Development Programme has helped to strengthen the role of cities within regions and where the Centre of Expertise Programme aims to enhance the international competitiveness of urban centres in the innovation field. In ***France***, the CIADT has stressed the role of large towns as motors of economic development in a European context, as well as the importance of smaller towns from a rural development perspective. Policy for big cities has also gained increasing prominence in ***the Netherlands*** and is now more effectively coordinated with regional policy. Finally, in the ***United Kingdom***, urban economic policy is seen as a way of strengthening the spatial dimension of the productivity/competitiveness agenda. In England, a new Core Cities project has developed an action plan for the major regional cities which feeds into the Regional Growth Public Service Agreement targets.

Finally, the point is worth making that the future of regional policy is in many respects uncertain. Part of the uncertainty reflects the current stage of development on the European front, both with respect to the future of the Structural Funds and regarding the next phase of regional aid policy. There is also uncertainty relating to the future nature of the regional problem in a more open, more competitive global environment, and with the impact of EU enlargement feeding through. The institutional context for regional policy is also unclear in a range of countries, with a changing sub-national landscape and new relationships developing between the national, regional and local levels. From the country reviews, it can be seen: that a potentially major reform of local government is being negotiated in ***Denmark***; that the reform of centre-local relationships is being given increased policy prominence in ***France***; that a Federal Commission has been established in ***Germany*** to examine the tasks and relations between the federal and the *Land* levels; that there are ongoing regionalisation processes in countries like ***Belgium***, ***Spain*** and ***Italy***; that there is a major parliamentary review of administrative structures in ***Sweden*** which may have an impact on the distribution of government responsibilities; that the process of devolution has not yet been completed in the ***United Kingdom***; and that the regionalisation of policy responsibilities is likely to be a continuing theme in ***Norway***. More so than at any stage in the recent past, there are major uncertainties and associated challenges facing regional policymakers in developing and delivering effective regional policies for the future.

4. THE COMPONENTS OF REGIONAL POLICY

4.1 Introduction

The previous section considered broader regional policy developments which have taken place since the start of 2003. The purpose of this section is to narrow the focus and discuss recent changes to the individual components of policy: regional incentives; measures to improve the business environment (including the provision of economic infrastructure); regional programming and strategy development; and a final miscellaneous group of policy initiatives. An overview of recent changes in these components of policy is provided in Table 4.1.

4.2 Regional Incentives

As previously mentioned, the current period is a relatively quiet phase as regards regional incentive policy. In all countries except Germany, regional aids were approved by DG Competition for the full 2000-06 period and have not been subject to very significant change in the interim. Table 4.1 shows that there has been new regional incentive legislation in ***Belgium*** and ***Portugal***; a series of relatively minor changes in ***Germany*** under the 33^{rd} Framework Plan; some developments with respect to the administration of aid schemes in ***Ireland***, ***Italy*** and the ***United Kingdom***; reduced aid budgets in ***the Netherlands***, combined with a proposal that the Investment Premium should not continue post 2006; and some more marked developments in ***Norway***, where aid budgets have been regionalised and the social security concession (a key support measure for the peripheral north) is being phased out following pressure from the State aid authorities (ESA, the EFTA Surveillance Authority). Also mentioned in the table is the new tax relief scheme for long-distance commuters from designated peripheral areas in ***Denmark*** though, not being available to business, this is not strictly speaking a regional aid.

The aim in this section is to briefly review these changes, highlighting both interesting new developments and common themes to emerge. To facilitate the discussion, four distinct components of change are considered in turn: incentive type, incentive coverage, incentive values and incentive administration.

4.2.1 Incentive type

As might be expected in the current mid-programme phase, incentive type changes have been limited. There have, however, been clear moves to reduce the focus on large-scale capital grants (partly for budgetary reasons, partly in response to broader State aid pressures) and to provide more innovative forms of support.

While the new legislation at the regional level in ***Belgium*** continues to be centred on capital grants, budget limitations on award have been introduced. In Flanders, this is being achieved by moving towards a tender-based approach for all but the largest projects, with awards paid out to projects on merit until the budget ceiling is reached. For larger projects, awards are discretionary within the aid ceilings laid down. In Wallonia, in response to significant budgetary constraints in recent years, the new legislation proposes to end the automatic granting of aid to large firms and to award aid selectively instead; it also provides for the creation of new aid schemes (eg to support quality) and for the introduction of support for innovative approaches to economic development and particularly the clustering and networking of companies.

Table 4.1: Recent Changes in the Components of Regional Policy

Member State	Regional Incentives	Business Environment	Regional Strategies	Other Measures
Austria	ERP Fund broadly unchanged.	Regionally-oriented aid for innovation. AWS one-stop-shop set up in October 2002.	*Regionalmanagements*: integrated bottom-up approach. Importance of *Land* strategies	Fiscal equalisation. Spatial development concept.
Belgium	New regional aid legislation in Flanders, Wallonia and Brussels	Aid measures include support for clusters.		
Denmark	No change re business aid. Support for long-distance commuters.	Business environment support favoured (new one-stop-shop).	Focus on support for sub-national coalitions and network-building	Public job dispersal, but difficult in practice
Finland	No change.	Goal: balanced regional structure (urban policy). Ten ministries to take regional priorities into account. Stress on innovation.	Regional programming important, but must take national goals into account.	Special programmes. Special actions for certain areas; Moves to devolve tasks of central government
France	No change.	Support for cities. Better transport and broadband provision. Poles of competitiveness.	Reform of state-region planning agreements	Decentralisation. Rural policy. Support for industrial restructuring. Public sector jobs
Germany	33rd Framework Plan changes. Investment allowance now to 2006.	GA aid for economic infrastructure. EC review of some aspects.	GA finance for *Regional-management* projects	Fiscal equalisation plus Solidarity Pact. Location of public authorities
Greece	New Development Law in preparation following change of government.	None since current CSF introduced	None since current CSF introduced	None since current CSF introduced
Ireland	From grants towards equity. Greater R&D role Revised EI approach (client perspective).	NDP: more stress on framework conditions and infrastructure. Role for innovation.	Programming in the context of the Structural Funds	New decentralisation programme from Dublin. Regional focus of development agencies.
Italy	Operational changes to Law 488/92. Increased loan component. PIA for innovation.	More stress on infrastructure and the business environment.	More focus on bottom-up strategies. Moves to align EU and national programming.	Further regionalisation (enhanced capacities). Localisation contracts (FDI).
Luxem-bourg	No change.	Focus on conversion of former steel sites.		
Nether-lands	Cutback in IPR budget. Possible withdrawal post 2006.	Policy memorandum has national vision for infrastructure spending. Industrial estates plan.	MEZ strategic view of regional priorities in policy memorandum. Implementation to come	Urban economic policy. Region-specific innovation policy. Role of RDAs
Portugal	Changes to the SIME in 2004 (SIME Innovation). Area designation under the PRASD	New PPCE to improve competitiveness and business environment.	No change. Regional OPs under CSF.	Portuguese Investment Agency established (FDI). Decentralisation package.
Spain	No change.	Infrastructure is a key element of the CSF. New government, new priorities.	Institutionalised at the regional level plus role of RDAs.	Equalisation mechanisms (eg ICF). Further devolution.
Sweden	No change.	Broad policy approach. Coordination of sectoral policies (eg R&D)	2004 regional growth programmes (RGP): key aspect of regional policy	Fiscal redistribution. Review of administrative structures. Evaluation and learning
United Kingdom	DTI review of business support. RSA replaced by SFI in England; revamped in Scotland. SFA in N. Ireland less investment-oriented.	Stress on productivity. Policy tackles barriers to business innovation and growth. Emphasis on coordination.	Increase in weight attached to regional strategies (RDAs in England).	Ongoing devolution of responsibilities (new powers for RDAs)
Norway	Regionalised budgets and responsibilities. SSC being replaced by transport aid (ESA).	New government: emphasis on business environment and innovation policy	New government: stress on regional economic strategies.	Ongoing administrative reforms (regionalisation) Innovation Norway established.

The weight attached to investment aid for large projects is also being reduced in ***the Netherlands***. The Investment Premium, the sole centrally-administered Dutch regional business aid, has suffered a significant budget reduction as part of more general budget cuts. More than this, the new spatial policy memorandum suggests that there is no longer a justification for traditional investment support and that, post 2006, assistance should be directed instead at measures which maximise the return to the national economy.

In ***Portugal***, there have also been moves to reduce the emphasis placed on large-scale capital grants. Under the recently-introduced Programme for Depressed Areas and Sectors (PRASD), risk capital funding has been added to the support possibilities. In addition, the main aid scheme, the SIME, is subject to repayment unless specific award conditions are met. The newly separated out SIME Innovation scheme also takes the form of a repayable grant except in respect of certain types of investment. There have also been moves away from grant-aided investment support in countries like Ireland and the United Kingdom. In ***Ireland***, equity is increasingly being used to replace or complement employment or capital grants. In May 2003, Enterprise Ireland revised its approach to aid by identifying five funding categories to which client firms can relate: exploring new opportunities; high potential start-up companies; existing company expansion; building international competitiveness (for which a new competitiveness fund has been established); and research and development. In the ***United Kingdom***, too, the business aid on offer from the DTI has been revised around four business-oriented themes: innovation, best practice, raising finance and regional financial support. As regards regional support, Selective Finance for Investment has replaced Regional Selective Assistance (RSA) in England. While the new scheme retains many of the features of RSA, it places more stress on value-for-money in award and targets higher skill, higher productivity projects. In Scotland and Northern Ireland, there have also been moves away from straightforward investment aid. In Scotland, there is now an increased emphasis on marketing, on funding quality projects and on targeting Scottish business; in Northern Ireland, investment aid is driven increasingly by cost-per-job considerations, with a focus on R&D, innovation, technology transfer, strategic marketing and performance improvement.

These developments fit in with longer-term trends to introduce an innovation orientation to regional aid schemes in countries like ***Austria***. In ***Italy***, too, the rationale for regional aids is changing. Increasingly, and certainly with respect to the growing number of schemes implemented at the regional level, regional aid is being targeted at factors which help strengthen the competitiveness of firms, including their innovation capacity and endowment in human capital. For instance, a new Integrated Aid Package (PIA) has recently been introduced in the *Mezzogiorno* in support of pre-competitive research and innovation in Objective 1 areas. In addition, under the main national regional aid, Law 488/1992, the grant element of the scheme is in the process of being reduced; largely for budgetary reasons, 50 percent of any award will soon take the form of a loan.

Two final developments with respect to incentive type are of note. One is that the tax-based Investment Allowance in ***Germany*** was due to terminate at the end of 2004, but has been extended to the end of 2006. This reflects its perceived benefits to the new *Länder*, though, as mentioned above, there had been pressures from wealthier *Länder* to withdraw the scheme. Another is the decision to phase out the differentiated social security concession in ***Norway***, as required by ESA. Although it has been agreed with ESA that the scheme can be retained in the far north, it is being removed over a three-year period in the other designated aid areas, except for Aid Area 1 (the most southerly aid area) where it was withdrawn immediately. A

transport aid has been introduced in its place (as permitted under the State aid rules). However, it is far less extensive in its impact and is not viewed as a satisfactory replacement by the Norwegian authorities.

Table 4.2: Regional Incentives by Country and Incentive Type

COUNTRY	INCENTIVE	INCENTIVE TYPE				
		CG	IRS	TC	LRS	TRA
AUSTRIA	ERP regional programme		✓			
BELGIUM	Flanders: CG	✓			✓	
	Wallonia IG	✓			✓	
DENMARK	no regional business aid schemes					
FINLAND	investment aid	✓				
	regional tax relief			✓		
	transport subsidy					✓
	social security concession (*de minimis*)				✓	
FRANCE	regional policy grant (PAT)	✓			✓	
	local business tax concession			✓		
GERMANY	investment grant	✓			✓	
	ERP regional soft loan		✓			
	investment allowance			✓		
GREECE	investment grant	✓				
	interest rate subsidy		✓			
	tax allowance			✓		
IRELAND	IDA - Ireland: grants for multinationals	✓				
	EI – support for indigenous industry	✓			✓	
ITALY	Law 488/1992	✓				
	automatic fiscal aid (eg Law 388/2000)			✓		
	'negotiated programmes'	✓				
LUXEMBOURG	capital grant	✓			✓	
NETHERLANDS	investment premium	✓				
PORTUGAL	SIPIE, SIME	✓	✓			
	SIME Innovation		✓			
SPAIN	regional investment grant	✓				
SWEDEN	regional development grant	✓				
	employment grant				✓	
	transport grant					✓
	social security concession (*de minimis*)				✓	
UNITED KINGDOM						
Great Britain	regional selective assistance/selective finance for investment	✓			✓	
Northern Ireland	selective financial assistance	✓	✓		✓	
NORWAY	investment grant	✓				
	regional risk loan		✓			
	transport subsidy/social security concession					✓

Notes: (i) CG = capital grant; IRS = interest/loan-related subsidy; TC = tax concession; LRS = labour-related subsidy; TRA = transport aid. (ii) The table covers the main national regional aids in each country.

Notwithstanding these developments, the main regional aid schemes operated at the national level remain capital grants (see Table 4.2). Compared to other incentive types, they are generally viewed as transparent, attractive to firms and easy to administer. They are, moreover, seen as particularly relevant to the promotion of FDI,

a policy target which remains a focus of attention in many countries. As can be seen from Table 4.1, new initiatives with respect to FDI have been introduced in both Portugal and Italy. In ***Italy***, new localisation contracts can now be signed between *Sviluppo Italia* (the development agency for Italy) and any medium or large firm wishing to set up in the *Mezzogiorno* (involving €25 million investment in manufacturing or mining or €5 million for other sectors). For potential investors in the five Objective 1 areas in the *Mezzogiorno* (plus Molise), such contracts guarantee the availability of infrastructure and industrial sites, support for training and research, investment aid and, in some instances, equity participation. In ***Portugal***, a new agency to promote inward investment has been established, the Portuguese Investment Agency. It has the task of promoting large-scale inward investment (projects with over €25 million investment), overseeing relevant investment aids and participating in the management of industrial parks and business development areas.

Despite the importance attached to inward investment by a range of countries, and the use made of regional aid to this end, investment support for large firms outside of Article 87(3)(a) areas is clearly coming under pressure from DG Competition. It will be interesting to monitor the extent to which investment-oriented grant schemes are able to maintain their current central position within regional aid packages post 2006.

4.2.2 Incentive coverage

Changes in the coverage of the available regional aid schemes (that is, changes to their main eligibility criteria) have been relatively minor in recent years, again a reflection of the current mid-term policy phase. Table 4.3 provides an overview of recent changes in the spatial coverage of regional aid packages, as well as changes in other award conditions. Changes in award rates, also highlighted in the table, are discussed in the next section.

With respect to *spatial coverage*, there have been no changes to the regional aid maps approved by the State aid authorities. As already discussed, ***Germany*** was the one country which did not submit its map for the full 2000-06 period. Its unchanged resubmission for 2004-06 reflected both the relative lack of change at the *Land* level and the promise that the map would be rapidly re-approved. At the same time, the opportunity was taken to fill the remaining gaps in designated area coverage in the old *Länder* along the borders of east Germany and the Czech Republic. The areas concerned were designated as E areas; firms within their boundaries can receive support under the SME or *de minimis* aid frameworks. The designation of E areas reflects the sensitivity of border issues in Germany, especially where projects move because of regional rate differentials. To reduce this problem, one of the regulations within the GA states that, where projects move from a designated area in an old *Land* to an assisted location in a new *Land*, then permission must be given by the "losing" *Land*. Where this is not forthcoming, the level of aid that can be awarded cannot exceed that which would have been available in a designated C region (the maximum aid ceiling available in the old *Länder*).

Table 4.3: Changes in Coverage Conditions and Award Values (2003-04)

Country	Spatial Coverage	Award Values	Other Award Conditions
Austria			
Belgium		No change to EU-approved rate maxima. New regional aid regime in Flanders plus reduced rates for large firms in Wallonia (budget constraints)	In Flanders, aid now tender-based except for large firms (where system is now selective). More selectivity in Wallonia plus aid for clusters.
Denmark	No change to regional aid areas but designation of poorest areas in May 2003. These are peripheral areas. Support via Regional Growth Coalitions and long-distance commuter aid.	No regional aid for firms and hence no change to regional aid award values. Note that an additional tax rebate is now available for long-distance commuters.	
Finland			Ongoing assessment of policy effectiveness.
France			
Germany	GA Area map for 2004-06 approved unchanged by EC. New E areas designated (treated under the SME guidelines, as per D areas)	No change in rate ceilings (but some *Länder* have introduced more rate differentiation in award).	Rewording of rule to limit cross-border moves within Germany. Uniform definition of the primary effect across Germany.
Greece			
Ireland		Between 2003 and 2004, rate maxima cut from 26 to 20 percent in the S-E, M-W and S-W and from 23 to 18 percent in the M-E as part of transitional arrangements.	New client-oriented approach to funding launched in May 2003 by Enterprise Ireland. New competitiveness fund.
Italy			Aid targeted more at innovative capacity and human capital. Minor administrative changes to Law 488. More selective tax credit. Integrated aid (PIA).
Luxembourg			
Netherlands			IPR budget cut – strategic expansions more narrowly defined. Future of IPR?
Portugal	Disadvantaged and depressed areas designated under the PRASD. Higher award rates are available in these areas as well as additional forms of support	Between 2003 and 2004, rate maxima cut from 26.9 to 20 percent in the Lisboa NUTS II area outside the Grande Lisboa NUTS III region as part of transitional arrangements.	SIME: mechanisms to reward merit and to target support introduced; less discretion in award; faster decision-making. SIME Innovation separated out.
Spain		Between 2003 and 2004 rate maxima cut from 25 to 20 percent in Cantabria as part of transitional arrangements.	
Sweden			
United Kingdom			DTI aid refocused on client need. SFI replaced RSA in England: productivity element. Elsewhere, move away from investment-related support.
Norway	No change to regional aid areas but 'Action Zone for Special Measures' in the far north continues to receive the SSC (social security concession).	SSC being phased out elsewhere in Norway (replaced by transport aid).	Regionalised award of business aid has introduced scope for change.

The only other map-based change relating to regional aid was in ***Portugal*** where a new area designation exercise took place under the PRASD. A map of "disadvantaged Portugal" was produced which focused on areas with purchasing

powers of less than 75 percent of the national average. Within the disadvantaged areas, six "depressed" regions have been singled out as being in need of particular support. Positive discrimination in favour of the designated PRASD areas takes the form not only of higher rates of award under the main aid schemes, but also regional differentiation of fiscal, financial and social benefits, the creation of a network of areas where free technical assistance is available, the provision of risk capital and, in the depressed regions, special measures to help modernise sectors in difficulty (textile, footwear, furniture) and promote tourism.

As discussed earlier, a new regional policy map has also recently been introduced in ***Denmark***. This focuses on the 15 poorest travel-to-work areas measured by work-related income per head, plus other areas with income per head of less than 80 percent of the national average. The concern is that such areas, being on the periphery, may become separated from the centres of growth. Policy measures are two-fold: a tax concession for long-term, long-distance commuters and support for sub-regional strategy development.

As regards *other award conditions*, most of the developments listed in the table have already been discussed. The majority centre on extending the coverage of aid schemes towards more innovative activities – as, for instance, in Belgium, Ireland, Italy, Portugal and the United Kingdom. Amongst other things, this reflects the growing importance of the competitiveness agenda. The sustainability of projects is also being given increased weight, in part related to environmental concerns but also due to the significance now attached to project quality (see recent developments in Belgium and the UK, for instance). In addition, it is of note that, in ***the Netherlands***, the definition of strategic expansions under the Investment Premium has been narrowed in response to budget cuts. Such expansions qualified for support only if applicants could argue that they were in danger of being attracted to alternative international locations by the aid on offer in those locations. To be eligible for assistance, such projects must now provide documentary evidence of the support available elsewhere (for instance, the offer letter from a competitor location).

4.2.3 Incentive values

There have obviously been no major changes in respect of award ceilings. The ceilings agreed with the State aid authorities for the 2000-06 period continue to apply. From Table 4.3, it can be seen that the main developments have been in Ireland, Portugal and Spain where the phased (four-year) reduction in award maxima for former Article 87(3)(a) areas has now been completed. Also of note is the fact that the new Wallonian legislation envisages a progressive reduction in the award ceiling for large firms – from 24 percent in 2003 to 20 percent in 2007. This is seen as being in line with broader developments at the EU level which encourage reductions in investment aid for large firms in favour of horizontal aids. The ceilings under the new legislation compare with the current aid maximum in Wallonia of 21 percent net grant equivalent.

4.2.4 Incentive administration

With respect to changes in incentive administration, an initial point to make is that recent developments have been relatively low key. Three broad types of change can be identified from the country reviews. First, and as already discussed, there has been a tendency to make the award of regional aid more selective, reflecting both budgetary pressures and the emphasis placed on value-for-money in award. Second, there has been an increase in the extent to which regional aid is administered at the

regional level. In some countries, this is related to broader devolutionary trends which have seen the regionalisation of economic development powers. In others, it is simply that fewer award decisions are now taken centrally under the main national regional aids. Third, countries are clearly striving for more effective approaches to aid administration. The regionalisation of aid administration, at least for SMEs, is one component of this. The re-orientation of aid packages to fit with the business needs of firms (as in ***Ireland*** and the ***United Kingdom***) is another. A further element is the increasing emphasis on policy effectiveness, with more stress on policy evaluation (both before and after award, as for instance in ***Finland***) and more insistence that aid must have a genuine impact on the projects supported.

4.3 Support for the Business Environment

A distinct regional policy trend in recent years, in virtually all of the countries under review, has been a reduction in the emphasis placed on (direct) business aid and a corresponding increase in the weight attached to (indirect) support for the business environment. At one level, this corresponds to the preferences of the European Commission, with the broadly-based programming approach of DG Regio and the ongoing efforts of DG Competition to curtail (non-horizontal) business aid. On the other hand, Member States also clearly favour measures to improve the business environment (as reflected in the changes recorded in Table 4.1). There is a broad consensus around the need to improve the regional contribution to national growth and competitiveness and of the importance of supply side factors in this.

Thus, for instance, in ***Austria***, the ERP regional programme is the last remaining national regional aid, while both the Federal Ministry for Economics and Labour and the Federal Ministry for Transport, Innovation and Technology provide funding for a range of other interventions to encourage enterprise and innovation in the regions, including business advisory services, science parks, incubators and business-oriented R&D centres (so-called impulse centres). In ***Denmark***, there has been a long-standing emphasis on improving the framework conditions for business, with the last remaining regional aid withdrawn as long ago as 1991. In ***Finland***, the government's new regional development targets underline the broad approach now taken to regional policy; ten sectoral ministries are now required to take regional development targets into account in developing their own regional plans and budgets while, under the national special programmes, emphasis is placed on enhancing the innovation component of regional policy (via the Centre of Expertise Programme) and on promoting the economic development role of urban centres (via the Regional Centre Development Programme). In ***France***, the concept of *aménagement du territoire* is obviously wide-ranging, as have been the issues considered by the CIADT over the past year. These include the role of large towns in economic development; the importance of rural policy in ensuring that all parts of the country are able to participate in national development; the need for specific measures for areas undergoing restructuring (*contrats de site*); the location of public sector jobs as an instrument of regional development; and the regional development impact of transport policy, communications technology and centres of excellence.

In ***Germany***, the GA (joint federal-*Land*) framework has both an aid and an economic infrastructure component (*wirtschaftsnahe Infrastruktur*), while also involving support for training and consultancy services and bottom-up strategy building. Aided infrastructure includes the creation of industrial parks, improvements to transport, energy, water and sewage infrastructure and the construction or improvement of education and training institutions. In ***Greece***, as in ***Portugal*** and ***Spain***, infrastructure investment has traditionally played a major, indeed, *the* major role in

promoting economic development under the Structural Fund programmes. In comparison, regional aid funding is modest. In ***Ireland***, the main priority of the National Development Plan is to address infrastructure bottlenecks and regional imbalances. In line with this, the Plan has made provision for record levels of investment in transport infrastructure. At the same time, enhanced stress is being placed on knowledge and innovation (as critical factors in the promotion of national and regional growth) and on creating a competitive urban structure (via the designation of regional gateways and hubs). In ***Italy***, the policy aim of exploiting the endogenous potential of the *Mezzogiorno* and increasing its international competitiveness has seen policy move away from regional aids and towards infrastructure investment and measures to promote bottom-up economic development. Infrastructure continues to provide the main focus for economic development policy in the *Mezzogiorno*.

In ***the Netherlands***, the new policy memorandum stresses the need to make economic development choices in favour of projects and locations where returns to the national economy are maximised. Regional incentives do not have a role in this framework; instead the focus is on creating a competitive international position for the Netherlands and its regions through a range of measures including transport and communications infrastructure, the provision of industrial estates, urban economic policy and region-specific innovation policy. In ***Sweden***, the new regional development policy combines the traditional aid-based regional policy and the newer programme-based regional industrial policy. While regional aid remains available, much as before, the recently-introduced Regional Growth Programmes are targeted mainly at innovation, education and creating an environment for firms to progress in a sustainable way. In the ***United Kingdom***, the policy focus on productivity has directed attention at possible market failures with respect to skills, innovation, investment, competition and enterprise – the perceived drivers of productivity. These now lie at the centre of regional development strategies while the emphasis placed on direct investment aids has declined significantly. Finally, in ***Norway***, the new government has stressed the importance of a favourable business environment for economic development, via tax cuts, the stimulation of innovation and infrastructure improvements. Regional aid budgets, which have anyway declined significantly over the past two decades, are now a county level responsibility. At the same time, innovation policy has increased in importance, as reflected in the encouragement of innovation clusters and centres of expertise in all parts of the country and the establishment of Innovation Norway to help sub-national authorities contribute to innovation and internationalisation.

A summary overview of recent changes in support for the business environment is provided in Table 4.4. The table distinguishes between three categories of support: infrastructure provision; innovation-oriented measures and other policy developments. These are now considered briefly in turn.

Table 4.4: Recent Changes in Business Environment Support (2003-04)

Country	Infrastructure Developments	Innovation-Oriented Policy	Other Changes
Austria	Not a core component of regional policy, but obviously relevant to it.	Significant stress on innovation-oriented policy: eg. science-industry links; support for technology centres.	AWS one-stop-shop set up in October 2002.
Belgium		Regional policy is mainly aid-oriented, but new support for clusters (Wallonia)	
Denmark	New regional growth and regional business development coalitions promote infrastructure provision. Sectoral coordination.	New regional growth and regional business development coalitions assist innovation projects	Uniform one-door system in respect of business advisory services.
Finland	Improved sectoral coordination through new target programme. Balanced regional structure (Regional Centre Development Programme).	Intensification of regional innovation policy (Centre of Expertise Programme).. Sectoral coordination.	
France	Large towns as motors of the economy. Future rural policy also based around improved transport and communications.	Development of poles of excellence and poles of competitiveness.	
Germany	GA funds infrastructure as long as oriented to economic development (but recent DG Competition intervention).	There is an innovation component to some of the economic infrastructure supported by the GA.	
Greece	No recent change. Transport accounts for 28.8% of 2000-06 CSF.		
Ireland	NDP: stress on removing infrastructure bottlenecks. NSS: stress on gateways and hubs.	Stress on better framework conditions (eg. Webworks, technology parks) as well as on innovation networks.	
Italy	Infrastructure main focus of public action for regional development. Increased infrastructure investment in the *Mezzogiorno*		
Luxembourg	Non-incentive policy is focused on the conversion of former steel sites.		
Netherlands	New memorandum: vision for infrastructure spending. Also industrial estates action plan and big city policy.	New policy memorandum: innovation component. Also region-specific innovation policy	
Portugal	Infrastructure provision is an important element of the CSF.	Innovation component of PPCE (eg. technopoles)	PRASD: free technical assistance
Spain	Infrastructure is a key priority: 48% of CSF expenditure. Recent changes to water and rail infrastructure policy.	National innovation plans: research, development and innovation; and information society.	
Sweden	Regional coordination of 8 sectoral policies, including transport, telecommunications and urban areas.	Regional programmes focus on innovation, education and improving the business environment; coordination of sectoral policies	
United Kingdom	Regional infrastructure provision (bulk of RDA spending). Coordinated transport provision (Northern Way). Increased focus on urban economic policy.	The policy focus is on the drivers of productivity: skills, innovation, investment, competition and enterprise. These aspects are reflected in regional strategies – RDAs	RDA control of Business Links.
Norway	Focus on framework measures and infrastructure provision	Increased policy focus on innovation – clusters and centres of expertise.	

4.3.1 Infrastructure provision

In broad terms, there are four types of infrastructure change highlighted in the table. First, there are various policy initiatives which aim to align large-scale infrastructure provision with regional development goals. Thus, for instance, in ***France***, the CIADT has stressed the importance of transport infrastructure for rural and regional development, as well as the need for wide geographic coverage of mobile telephones and broadband communications. In ***Ireland***, too, the necessity to respond to longer-term infrastructure deficits and congestion around Dublin is seen as critical to regional competitiveness and development, as is the roll out of broadband infrastructure across the country. As previously mentioned, such large-scale infrastructure provision also plays a central role in the Objective 1 CSFs in ***Greece***, ***Portugal*** and ***Spain***. In ***Italy***, infrastructure provision is similarly seen as key to regional development. Not only has the government acted to increase the proportion of infrastructure investment flowing to the *Mezzogiorno* but it has also taken steps to improve the ability of regional administrations to undertake large-scale infrastructure projects while also simplifying administrative procedures. Finally, in ***the Netherlands***, the new policy memorandum places considerable stress on infrastructure investment undertaken in line with the National Spatial Strategy, highlighting the importance of selective investment in key transport connections.

Second, there is the provision of more targeted economic infrastructure. This has always been a core element of the GA planning framework in ***Germany***. Recently, this component of policy came under DG Competition scrutiny as part of the process of re-approving the regional aid regime for 2004-06. This proved to be a difficult exercise and, indeed, two components of the German package still remain to be approved (relating to regional airports and technology parks/innovation centres). The more detailed Commission scrutiny of economic infrastructure aid may have implications for other Member States given the need for regional aid packages to be re-approved at the end of 2006. In ***Ireland***, the provision of internationally-competitive economic infrastructure is part of the policy of focusing on key gateways and hubs, including the development of flagship business and technology parks in selected locations. In ***the Netherlands***, too, the provision of international standard industrial estates is a significant component of spatial economic policy. An industrial estates action plan has been agreed which focuses on 50 key sites (so-called "top projects"), with government support concentrated on encouraging the redevelopment of 25 brownfield sites. More generally, the process of devolving and decentralising economic development responsibilities (as, for instance in ***Italy*** and the ***United Kingdom***) has ensured that the provision of economic infrastructure has become central to regional development efforts.

Third, in a number of countries, but particularly in the Nordic Member States, there have been recent efforts to improve the coordination of sectoral policy from a regional perspective. Thus, in ***Finland***, for example, the Ministries of Transport and Communication, Education, the Environment and Trade and Industry are among ten sectoral ministries that are required by a recent Government Decision to take regional development targets into account in developing their own regional plans and budgets. Amongst the sectoral priorities highlighted in the Government Decision are the need for affordable broadband to be made available to all by the end of 2005 and the reinforcement of regional competitiveness through the development of key transport links. In similar vein, the 2001 regional policy Bill in ***Sweden*** lists eight policy areas with regional policy responsibilities, including transport, communications, IT and postal services and metropolitan areas. All the policy fields concerned must take the regional implications of their policies into account and coordinate their activities to achieve regional goals. In ***Denmark***, too, one of the consequences of the

recent stress on networking activities (with the establishment of Regional Business Development Coalitions and Regional Growth Coalitions) has been to generate improved sectoral coordination across government departments to regional development ends – including with respect to infrastructure provision.

Finally, it is worth mentioning again the increased stress in a number of Member States on the role of urban centres in economic development, with associated implications for infrastructure provision. As previously noted, the following countries have incorporated (aspects of) urban economic policy within their regional development efforts: ***Ireland***, through its policy focus on regional gateways and hubs, ***Finland***, via its Regional Centre Development Programme, ***France***, with its emphasis on the role of large towns as motors of economic development, ***the Netherlands***, with its developing big city policy, and the ***United Kingdom***, which views urban economic policy as a way of strengthening the spatial dimension of the productivity/competitiveness agenda. In ***Sweden***, too, NUTEK has recently suggested that a growth policy for the country's major cities be operationalised through the newly-introduced Regional Growth Agreements.

4.3.2 Innovation-oriented regional policy

In response to the growing policy emphasis on growth and international competitiveness, the weighting attached to R&D and innovation has increased in virtually all Member States. Some of the changes recorded in Table 4.4 reflect this increased weighting. In ***Portugal***, for instance, one of the six goals under the new national Programme for Productivity and Economic Growth (PPCE) relates to supporting innovation and R&D. However, the regional component of policy is limited. One of the few regional elements concerns the creation of five technopoles in specific areas in the interior of the country; this initiative has been allocated €50 million in the period through to 2007. In ***Spain***, a new National Plan for Research, Development and Innovation has been introduced which aims to provide a substantial boost to R&D investment. Again, most of the initiatives are national. On the other hand, this is hardly surprising given the nature of the problem regions and the regional problem in the Cohesion countries.

The remaining innovation-oriented changes in Table 4.4 do not in general relate to national innovation policy but, rather, focus on developments in the innovation component of regional policy. Innovation plays a particularly central role in ***Austria*** where, to the extent that there is a national regional policy distinct from the Structural Funds, it tends to take the form of regional innovation policy. The ERP Regional Programme is designed to support technology-oriented investment, *Land*-level programmes have a strong R&D and innovation orientation and, as already mentioned, the Federal Ministry for Transport, Innovation and Technology funds measures to encourage enterprise and innovation in the regions, including science parks, incubators and business-oriented R&D centres (so-called impulse centres). An initial policy phase supported the construction of these centres but, more recently, the focus has been on improving the quality of their interventions. To this end, the tender-based REG*plus* scheme provided €15 million in 2002 to fund a further 15 projects.

Both Finland and the Netherlands are also strengthening the innovation-oriented component of regional policy. In ***Finland***, the Centre of Expertise Programme, which began in 1994 and is now in its second phase, has helped to encourage the development of regional research networks focused around (currently) 22 centres and 45 fields of knowledge. The programme is viewed as having successfully linked

national and regional innovation policy and, indeed, is seen as contributing to the regionalisation of national innovation policy. In ***the Netherlands***, the new policy memorandum directs policy efforts towards regional strengths, including innovation strengths (eg specialised knowledge-based services in the east and world class technology in the south-east). At the same time, a region-specific innovation policy is being developed, to stimulate those aspects of the innovation process which take place at the regional level, to promote regional technology transfer and to exploit the innovation strengths of particular regions.

Developments elsewhere tend to take the form of specific innovation-oriented initiatives. Thus, for instance, a number of countries have introduced measures in support of technology clusters. In ***Wallonia***, the new framework legislation of 11 March 2004 provides support to innovative approaches to economic development, particularly the clustering and networking of companies. In ***France***, the CIADT has highlighted the need to develop poles of excellence (*pôles de compétitivité*), bringing together public and private research, education and technological resources to achieve a better articulation between industry and innovation. The first example of a *pôle de compétitivité* was announced in the summer of 2004; it will probably be based around Limoges. In ***Ireland***, Enterprise Ireland has developed an initiative called “Webworks” which aims to provide technology-based facilities for enterprises in strategic sectors such as software and bioinformatics, whilst also encouraging the formation of locally-rooted clusters in these fields. More generally, support for clusters and innovation networks tends either to be part of national innovation policy (for instance, the recently-established Visanu programme in ***Sweden*** which provides a budget of SEK 70 million to develop innovation systems and clusters in fields with good future prospects) or to be reflected in regional programmes and strategies.

The innovation component of regional programmes can often be significant. For example, in ***Denmark***, the new Regional Business Development Coalitions (operating at the inter-regional level) and Regional Growth Coalitions (at the sub-regional level) have been used to develop projects with a strong innovation component. In ***Sweden***, the Regional Growth Programmes which were introduced at the start of 2004 are targeted at three main themes: the matching of labour demand and supply, the encouragement of entrepreneurship and the development of innovation systems. Finally, in the ***United Kingdom***, the focus on productivity improvement has seen regional strategies concentrate on improving skills, increasing innovation and developing entrepreneurship. In this context, it is of note that Regional Development Agencies in England were given new competencies for providing R&D grants, stimulating enterprise in disadvantaged areas and supporting business-university collaboration in the 2004 Spending Review.

4.3.3 Other business environment measures

There is one final point to make with respect to Table 4.4. This is that, in a number of countries, there have been changes to streamline the provision of business advice. In ***Austria***, the AWS (Austria Wirtschaftsservice GmbH, Austria Economic Service Ltd) was established at the end of 2002 as a one-stop-shop, particularly for SMEs. Subsequently it has incorporated a number of other enterprise support organisations to further enhance the efficiency of the provision of business support services. In ***Denmark***, there has been a similar consolidation of business advice. A national tender for exclusive regional franchises has introduced a country-wide one-door approach to non-specialised advisory services. In ***Portugal***, the new PRASD has promoted the creation of a network of business development areas where free technical assistance to business is available. Lastly, in the ***United Kingdom***, the

business advice network in England, the Business Links, have become the responsibility of the Regional Development Agencies, part of the ongoing regionalisation of economic development responsibilities.

4.4 Regional Programmes and Strategy Development

In addition to regional incentive changes and changes to measures in support of the business environment, Table 4.1 also highlights recent changes in regional programming and strategy development. The focus of the table is not on detailed programming changes *per se* but rather on changes with respect to how regional programmes relate to national regional policy.

In the countries under review, there are obviously very different contexts for the operation of regional programmes. In Member States with wide-ranging Objective 1 or Objective 1 phase-out areas, much programming and strategy development is directly related to the operation of the Structural Funds. This is obviously the case in ***Greece***, ***Portugal***, ***Spain*** and ***Ireland***. In these countries, the regional elements of the programmes tend to be relatively low-key and, anyway, have not changed significantly in terms of their relationship to national regional policy.

Federal countries often have regional-level programmes. In Austria and Germany, for instance, *Land* programmes play a central role in the delivery of economic development policy. There are, however, also interesting developments at the sub-regional level. In ***Austria***, there is a stress on "bottom-up" initiatives which integrate a range of policy measures in a specific location. So-called *Regionalmanagements*, agencies operating between the *Land* and the local authority level, have proved useful in enhancing cooperation (especially around the theme of innovation) and in promoting consensus-based regional development. In similar vein, in ***Germany***, there has been a stream of GA funding since August 2000 (under the heading "*Regionalmanagement*") to encourage bottom-up strategy development. Aided projects must involve cooperation between regional actors, including businesses, but can be varied in terms of their subject matter. A total of 44 *Regionalmanagement* projects have been supported since 2000. They have been viewed as a success and a decision has recently been taken to continue to finance such projects under the GA until 2006.

Countries which have become more devolved or more decentralised in recent years have also tended to see more stress placed on regional programmes and "bottom-up" strategies. This is most clearly the case in the ***United Kingdom***. Regional Development Agencies became operational in England in 1999, initially as strategy development bodies. However, they have since been given implementation responsibilities over an increasingly wide economic development range and are now viewed as pivotal economic development bodies in the regions. In ***Italy***, "bottom-up", locally-based agreements (*Patti Territoriali*, *Contratti d'Area*) have also become more important. In addition, their logic has been introduced into co-funded programmes. New *Programmi Integrati Territoriali* (PIT, Territorial Integrated Projects) in Objective 1 areas and *Progetti Integrati per lo Sviluppo Locale* (PISL, Integrated Projects for Local Development) in Objective 2 areas have helped to bring together different policy interventions within a single framework. Finally, in ***France***, it is of note that the CIADT initiated a consultation process in December 2003 to reform the *contrats de plan*, the State-region planning agreements which form the basis for regionalised economic development and dovetail with the Structural Fund programming documents in the assisted areas. There was seen to be a need for reform due to the

perceived lack of clarity in the objectives of the *contrats*, their administrative complexity and the growing difficulties experienced in their implementation.

In the Nordic countries, regional programming and strategy development have become much more important in recent years. In ***Denmark***, the 2003 White Paper has seen funding provided for the establishment of Regional Growth Coalitions in peripheral areas. The aim of these coalitions is to facilitate strategy development at the sub-regional level, which in turn is expected to provide the basis of future project development. In ***Finland***, strategic regional programmes are an important element of regional policy, helping to promote policy coordination at the regional level. Under the 2002 Regional Development Act, regional programmes were developed initially for the 2003-06 period. They will be updated at the start of 2005, partly to take account of the new composition of the Regional Councils (following municipal elections in October 2004) but also to ensure that each programme is aligned with national policy priorities, as set out in the Government Decision of January 2004. In ***Sweden***, Regional Growth Programmes replaced the former Regional Growth Agreements from the start of 2004. They are bottom-up, partnership-based economic development frameworks which facilitate the coordination of policy at the regional level and now lie at the heart of regional policy implementation in Sweden. In ***Norway***, regional programmes and strategy development are similarly "bottom-up", involving a partnership of the county, Innovation Norway, higher education institutions and the private sector. The bottom-up nature of the process has recently been reinforced by the fact that regional aid budgets have now been devolved to the county level.

Many of the programming changes in recent years have been in the direction of strengthening the bottom-up approach to regional development. The new policy memorandum in ***the Netherlands*** has a different philosophy. It takes as its starting point the fact that, in a situation of limited resources, policy choices must be made and that those choices should be on the basis of national (rather than regional) returns. While regions have been consulted in the development of the strategy – and will be consulted further on the road towards its implementation – the policy memorandum makes clear that it is national goals and priorities that take precedence. On the other hand, it would be wrong to conclude that, outside the Netherlands, regional-level objectives have priority. On the contrary, and as discussed in Section 3.2, national-level inputs remain significant – coordinating and facilitating, driving forward strategic initiatives, ensuring overall policy coherence and efficiency, encouraging policy learning and identifying where the national interest lies.

4.5 Other Policy Components

Table 4.1 identifies a number of changes in other regional policy-related measures. Perhaps the most common remaining theme has been the emphasis placed on the role and potential of public sector jobs in regional development. This has been highlighted in recent years in countries like Denmark, Finland, France, Ireland and the United Kingdom. That said, in many countries, there has been a gap between aims and achievements, underlining the practical and political difficulties associated with public-sector job relocations.

5. THE ADMINISTRATION OF REGIONAL POLICY

The national context for the administration of regional policy varies greatly across the EU. The main differences lie in regions' administrative roles, rooted in different 'starting points' i.e. the historic institutional and procedural frameworks of each Member State. Nevertheless, previous sections have outlined changing perceptions of the regional challenge and shifts in the focus of policy responses across the EU, characterised by a desire for efficiency gains and policy effectiveness. This raises some interesting questions. What are the implications of changing policy challenges on policy design and delivery systems? Is a decentralised system appropriate for the implementation of 'whole country' rationales for regional policy, which aim to maximise the capacity of all regions? The impact of new regional policy agendas on policy formulation and implementation mechanisms can be summarised under three headings: policy regionalisation, policy coordination and policy evaluation (see Table 5.1). The following review of changes in national administration of regional policy is sub-divided according to these categories.

Table 5.1: Recent Administrative Developments (2003-04)

Country	Regionalisation/Coordination	Policy Evaluation/Other Developments
Austria	*Länder* have autonomy in regional development but some funding programmes organised at the federal level	Evaluation has gained a stronger profile regional policy in recent years due to the regulatory requirements of the Structural Funds (particularly through ÖROK).
Belgium	Regions have exclusive competence in the fields of regional and economic policy.	Evaluation culture has progressed at federal and regional levels but not completely mainstreamed. Strong boost given by new role of *Cour des comptes* for ex post evaluation of public expenditure.
Denmark	Process of organisational consolidation aimed at building regional-level networks. Inter-regional and sub-regional cooperation through regional business development coalitions and regional growth coalitions	Further organisational change seems imminent. Consensus on major reform of sub-national government that could introduce intermediate tier with some economic development responsibilities
Finland	Regional Councils as vital means of determining priorities and coordinating regional funding sources. Nearly all business aid decisions taken regionally in T & E Centres. Stress also placed on the national coordination of policy.	Evaluation culture well established. All regional development programmes evaluated at least once during or at the end of their lifetime. Recent emphasis on accurate forecasting of future policy impacts. Continuous assessment of regional aid.
France	Decentralisation part of Constitutional revision. New principle of 'decentralised organisation' with devolution to regions of responsibilities for Structural Fund implementation. Consultation initiated for reform of the *Contrats de plan*	Gradual shift from EU regulatory requirements to mainstreaming of 'evaluation culture' across national and regional policy-making. National Evaluation Council promotes inter-ministerial evaluation. New budgetary procedures based on programmes favour evaluation.
Germany	Debate ongoing over the division of responsibilities and expenditure capacities between the *Bund* and *Land* levels.	Increasing focus on evaluation to enhance the effectiveness of regional policy expenditure.
Greece	Regional level introduced in 1997 but national level still dominant.	Evaluation largely Structural Funds driven.
Ireland	Some signs of Structural Funds-driven regionalization becoming more embedded. Regional dimension to NDP. Regionalised structure for national development agencies (IDA and EI).	Evaluation initially Structural Funds inspired but increasing commitment to the evaluation of publicly funded programmes as part of the policy-making process.
Italy	Recent constitutional reforms introduced decentralised approach to economic development. More stress on regional and local level inputs.	Monitoring and evaluation crucial in new regional policy framework which is much more outcome-oriented than in the past e.g. newly constituted network of Evaluation Units

Luxembourg	New 'Competitiveness Observatory' created within the Ministry for the Economy to develop economic forecasts and acts an interface with statistical office. Ministry's new organisation chart to prepare Luxembourg's 2005 EU Presidency.	Recent shift from Framework Law for main aid schemes to separate laws for each aid component has had positive implications for the evaluation of regional aid.
Netherlands	New policy memorandum underlines the importance of coordinated actions at the sub-national level, in line with agreed national priorities, and the need to review the activities of central government in the regions.	Emphasis placed on policy evaluation has increased significantly and has become more codified with new government Handbook on Policy Evaluation and Implementation
Portugal	Decentralised implementation of Structural Funds. Increasing powers of municipalities and new legal basis for municipality associations	Institutional consolidation, administrative simplification, increased evaluation.
Spain	All regions now have equal formal status and competences. Local level to be given increased financial competence. Horizontal and vertical coordination now given greater political priority.	Proposed State Agency for Evaluation of Public Services and Policies will boost evaluation culture. The new Spanish government seems sympathetic to the further regionalisation of powers.
Sweden	Decentralisation of regional policy administration, to CABS and municipality associations. Limited experiments with elected regional councils.	Evaluation and policy learning are now feeding more actively into policy developments
United Kingdom	Policy-making authority and spending regionalised to devolved administrations. Increasing policy autonomy to English RDAs.	Evaluation now regarded as an iterative assessment of current policy areas.
Norway	Increasing authority in financing and administering regional policy and for county level	Evaluations of current regional policy instruments underway. These will feed into 2005 White Paper on regional policy

5.1 Policy Regionalisation

Long-standing arguments for administrative regionalisation (increased efficiency through economies of scope, more accountability through political devolution) have been reinforced by the recent trend in regional policy perspectives towards the development of economic potential in all regions. Previously, more centralised, hierarchical administrative systems were appropriate for interventions where equity considerations or the targeted support of 'lagging' regions were given priority. The growing focus on developing policies that identify and exploit the specific potentials of all regions implies more extensive administrative regionalisation. The administration of the Structural Funds has played a part here, with the principles of partnership and subsidiarity encouraging regional input into policy initiatives.

In centralised, unitary states such as ***Greece***, ***Ireland*** and ***Portugal***, where there is little experience of regional interaction with national governments over domestic regional policy, the influence of the Structural Funds on the regionalisation of policy is clear. Although the centre remains the dominant actor, processes of regionalisation have been apparent, largely through preparations to administer European programmes. Initially, these responses were pragmatic and limited to Structural Funds administration. Nevertheless, although these countries retain primarily centralised systems, recent years have seen a broader shift towards a more regionalised approach to regional policy-making which suggests that new policy administration models are becoming embedded. Other countries with unitary systems, such as ***Italy*** and the ***United Kingdom***, are in the process of devolving significant powers to sub-national levels – centrally-inspired regionalisation. Here, regions are exercising increasing authority in regional policy-making, albeit within

frameworks set by the centre. In the ***Nordic countries*** and ***France***, the development of an appropriate regional administrative tier is a feature of broader changes in public administration systems. Most often, the contribution of the sub-national level in these countries is being enhanced through the emergence of more integrated and inclusive programming frameworks. The federal systems of ***Austria***, ***Belgium***, ***Germany*** and ***Spain*** have constitutional arrangements that involve various governmental levels in the administration of regional development policy. In some cases, the regional level is reaffirming its role in economic development and federal influences may be declining – so-called "regionalisation from the bottom". The remainder of this section considers these different types of regionalisation in more detail, focusing on recent policy developments.

5.1.1 Structural fund-driven regionalisation

In ***Greece***, regions were established for NUTS purposes in 1986 but, for the next decade, the necessary institutional capacity was not available to take full advantage of EU funding; it was only in 1997 that the 13 NUTS regions were given substantive responsibilities for economic development and planning. The establishment of a meaningful regional level was almost entirely due to the pressures created by EU funding programmes, with their formal requirements for effective mechanisms of regional management. Under the 2000-06 CSF, the 13 regional operational programmes account for just over one-quarter of the CSF budget. On the other hand, the current role of the regional level should not be overstressed. Despite significant steps towards decentralisation at the regional level and self-government at the prefectural and municipal level, Greece remains a highly centralised State in terms of the allocation of power and resources at the various administrative levels.

Although still at an early stage, regionalisation processes in ***Ireland*** are ongoing. In 1999, the country was divided into two administrative regions to ensure the continuation of Structural Funds support. These have become the focus for strategies and structures that go beyond the administration of Structural Funds, taking in broader regional policy roles. Group regional assemblies have been established with Structural Funds administration responsibilities and additional roles in coordinating the provision of public services and advising on the regional dimension of the National Development Plan. Additionally, over the past two years, Ireland's two main economic development agencies, IDA-Ireland and Enterprise Ireland, have given increasing prominence to regional development objectives, focussing particularly on developing the competitiveness and export potential of businesses outside of Dublin. Both agencies have also adopted more regionalised structures, in recognition of the need to play an enabling role in creating regional competitive advantage in partnership with local authorities, higher education institutions and other bodies.

In ***Portugal***, there have been attempts by the government to move towards new administrative models based on partnership working, flexibility, and locally-sensitive development strategies. For instance, in 1997 the IQADE (Implementation and Qualification of Development Agencies) project was launched, aiming at strengthening or creating regional development agencies. However, the impact of such initiatives has been limited. The rejection of proposals for regional reforms and decentralisation in a referendum in 1999 is perhaps indicative of how centralised Portugal remains. More recently, there has been a process of institutional consolidation at the regional level, linked to the administration of Structural Funds. Though Regional Coordination Commissions were established prior to Portugal's involvement with Structural Funds, their main role has been as Managing Authorities to administer the Funds in the 2000-06 programming period. In 2003, the functions of

the Commissions were integrated with the Regional Environment and Territorial Planning Offices (DRAOT), creating Regional Coordination and Development Commissions (CCDR). The aim is to improve policy coordination at the regional level. Provision has also been made for local councils to nominate the Executive Board of each CCDR, thus giving them a stronger voice. At the same time, the regional offices of the government's Institute for the Support of SMEs and Investment (IAPME) have been linked under the National Business Network and given increased competencies in the field of business development. Again, it should be noted that these processes are occurring within a heavily centralised context. For instance, central government still nominates the President of each CCDR.

Preparations to administer Structural Funds in the 2000-06 period have, thus, been the main driver for recent regionalisation processes in these countries. Although there is evidence of broader adoption of regionalised approaches to policy administration, systems remain centralised and, in the context of impending reforms to Structural Funds administration for the next programming period, the extent of regionalisation processes is uncertain.

5.1.2 Regionalisation in a federal context

In the federal systems of Austria, Germany, Belgium and Spain, regions with elected parliaments and significant budgetary, legislative and fiscal powers take the initiative in regional policy-making with the federal level playing a coordinating or facilitating role. In some cases, there have been recent signs that the traditional role of the federal level in administering overarching policy frameworks is weakening.

Austria's federal structure has produced a 'regionalised' approach to policy administration, where responsibility for designing and implementing regional strategies lies primarily with sub-national actors, often in cooperation with a range of governmental and socio-economic partners. Some funding programmes continue to be organised at the federal level, and are subsequently channeled through, or implemented in cooperation with, organisations at *Land* or local level but the focus is increasingly on *Land*-based initiatives.

In ***Belgium***, institutional reforms over the past three decades have progressively transferred responsibilities from the centre to the federated bodies (the French, Flemish and German-speaking Communities and the Brussels-Capital, Flanders and Wallonia Regions). The federal framework Economic Expansion Laws of 1970 and 1978 are now being replaced by regional legislation. Regions have competencies with a territorial logic, including regional economic development, employment policy and industrial restructuring and rural development. A Flemish Decree of January 2003 replaced the previous national framework for regional policy with a regional framework. Similar legislation is in preparation in Wallonia and Brussels-Capital.

Although no significant changes have been implemented in the framework for administering regional policy in ***Germany*** over the past year**,** a debate is ongoing in the Federal Commission over the division of responsibilities and expenditure capacities between the *Bund* and *Land* levels. The GA system has traditionally provided a framework for a common *Bund* - *Land* approach to regional development policy, facilitated by the *Bund* level. Through consensus-based decision-making, it produces guidelines that avoid excessive competition between the *Länder* in the provision of regional aid, but still allow them independence in the implementation of

regional policy. A complicated system of redistribution of financial resources between federal and *Länder* governments and between rich and poor *Länder* further contributes to the linking of the central and regional level.[14] However, economic development differences, particularly between the old and the new, *Länder* have placed the GA system under considerable stress. Different incentives operated in the new *Länder* and the area designation system distinguished between the eastern and western *Länder*. Recent policy efforts have been directed at re-creating a uniform system for the whole of Germany, but this has proven to be difficult to implement in practice. The financing of the GA regional policy instruments has normally been shared 50:50 between the Federal Government and the *Länder*. However, following cuts to the federal allocation, in 1998 some western *Länder* added extra funding on top of their 50 percent base allocation. Complementary funding of this type has continued ever since. The future of overarching, federal frameworks for regional policy is, thus, currently the subject of debate. This might potentially lead to future changes in the instruments of active regional policy or in the equalisation mechanism, extending *Länder* input in the regional policy field. The scope for specific changes in the ways in which different *Länder* implement regional policy may increase, which would be of considerable importance in administrative terms.

Recent developments have also increased emphasis on the role of sub-national levels in policy administration in ***Spain***. The completion of the transfer of equal competences to all regions in 2003, the consolidation of local authority finances, the negotiation of pacts between regional and local authorities and the election of a new Spanish government have increased the momentum behind regionalisation processes.

5.1.3 Regionalisation as part of constitutional change

In Italy, the United Kingdom and France, recent constitutional and administrative reforms have had a significant impact on policy regionalisation.

In ***Italy***, there is now a much stronger emphasis on the regional and local levels than before. State, region, provinces, municipalities and metropolitan cities now all have the same constitutional status. The principle of subsidiarity applies, with sub-national levels exercising responsibility in an increasing number of policy areas, including economic development. The reforms have been accompanied by a growing regionalisation of expenditure, particularly for the improvement of underdeveloped areas, and the increasing use of locally-grounded, partnership-based strategies, contracts and agreements. The centre continues to play a vital role, reflected in the recent introduction of a national fund (*Fondo Unico per le Aree Sottoutilizzate*, FAS), administered by central ministries, that encompasses all additional resources for underdeveloped areas.

In the ***United Kingdom*****,** the process of devolution has established the Scottish Parliament, the Assembly in Wales and the Northern Ireland Assembly as important regional policy actors, producing increasingly distinctive economic development strategies. In England the creation of elected regional assemblies, that would have important economic policy responsibilities, is still on the political agenda and recent processes of policy and administrative regionalisation have gathered momentum. Since their inception in 1999, regional development agencies (RDAs) have become

[14] Benz, A. (1998) 'German regions in the European Union: from policy-making to multi-level governance' in P. Le Galès and C Lequesne (eds) *Regions in Europe* Routledge: London p116.

increasingly important to new, regionalised approaches to regional policy. Already charged with the responsibility of developing regional economic strategies for their areas, thus setting the priorities for public sector spending in the regions, a ‘single pot’ approach to the RDAs’ budgets was adopted in 2002. Dedicated budgets from different central government departments were merged to allow RDAs to determine how to allocate expenditure. In the past year, the policy responsibilities and financial weight of RDAs have been expanded further. Fresh RDA-led regional initiatives are bringing groups of regions together to formulate development strategies that represent a major change from traditional approaches to regional economic development.

In ***France***, the past two years have seen intensive legislative activity. The Constitution has been revised and three organic laws have been adopted by parliament. The Constitutional Revision of March 2003 removed obstacles for changing the status and powers of local authorities. Key features of the reform include: a partial withdrawal of the state, particularly through the questioning of the policy of deconcentration of the state’s services; the promotion of the status of the region above other local authorities; the devolution to regions of responsibilities for the implementation of EU policy; and, the opening of local authorities to direct democracy and the introduction of constitutional guarantees regarding their financial autonomy. Nevertheless, the dispositions that translate these principles in practice moderate their scope and the unitary nature of the state is maintained. The aim is to ensure a stronger coherence between public bodies in the central state and regions and boost the input of sub-national levels in economic development. On the one hand, the operation of *contrats de plan* (the State-region planning agreements that form the basis of regionalised economic development) is being reformed, with a guarantee that the region will remain the ‘privileged partner’ in any new contractual arrangements. On the other hand, the number and economic importance of inter-municipality associations (EPCIs) have significantly increased. The inter municipality level has consolidated its financial weight in local budgets and has progressively taken on general competence for economic development both in terms of compulsory and facultative powers.

5.1.4 Regionalisation as part of administrative change

In other countries, decentralisation of regional development has been a part of more limited administrative reforms aimed at boosting the efficiency of policy delivery and/or increasing the input of sub-national levels. This has involved efforts to find the most appropriate size of unit for policy delivery.

In ***Denmark***, the recent focus on harmonizing policy instruments and goals between different tiers of government has continued with a process of organisational consolidation that is increasingly aimed at building regional-level networks. The profile of the government’s National Agency for Enterprise and Housing (NAEH) has changed to echo this increased focus on regional networking. The agency no longer simply provides encouragement (and some financial support) towards regional networking but its regional offices also take a much more active role in facilitating regional collaborative arrangements. Recent agreement about a major reform of sub-national government means that organisational change is imminent and debate on the size and competences of new administrative units is ongoing. It seems likely that a new three-tier model will be created. The size of both regions and local authorities will be increased significantly, with five regions being the number most frequently mentioned. Economic development could become a statutory task for sub-national tiers of government

In ***Finland***, recent administrative reforms have increased the regionalisation of regional policy. Under the 2002 Regional Development Act, strategic regional programmes have been developed by Regional Councils (which are groupings of municipalities established initially for the purposes of Structural Funds administration) as a means of determining goals and priorities and ensuring that the various funding sources available at the regional level are coordinated and utilised to regional ends. The January 2004 Government Decision foresees more responsibilities for regional development being allocated to the regional level. The Decision also confirms the continuation of a number of administrative experiments aimed at improving cooperation between municipalities. Further, the Kainuu Regional Council experiment, whereby the Council has been given scope to take on a wider range of economic development and related functions between 2005 and 2012, will go ahead. The Council will receive some €160 million in regional development funding and will have considerable freedom on how to use the money. The regionalisation of policy delivery is also an important element of the Aid to Business Act. Nearly all aid decisions are taken regionally in Employment and Economic Development Centres rather than in the Ministry of Trade and Industry. It is anticipated that further regionalisation of central government functions will take place.

Regionalisation has been a feature of recent administrative changes in ***Sweden***, though debate continues on the ultimate direction of ongoing reforms. In recent years, the evolution of County Administrative Boards (which comprise regional representatives of national ministries) has been demonstrative of the regionalisation process. CABs have gradually moved from the analysis and forecasting of regional problems to more direct promotion of economic development through incentive administration, allocation of funding through central block grants and policy coordination. The regionalisation process was confirmed in recent legislation that outlined the scope for CAB powers to be transferred to new Municipality Co-operative Bodies (groupings of municipalities). The emphasis on bottom up strategy building, particularly through new Regional Growth Programmes, provides an opportunity for these bodies to become important regional development actors. In addition, there are three regions (Skåne, Västre Götaland, and Kalmar), which are experimenting with directly elected Regional Councils with regional policy competence. Regionalisation is still a contested issue in Sweden and observers highlight the apparent gap between the range of competences currently being regionalised and the economic and legal resources available to fulfil them. A Parliamentary Committee (due to report in 2007) is now looking at the administrative relationship between the centre and municipalities and the value of a decentralised regional policy approach in terms of efficiency, equity and democratic legitimacy.

In ***Norway***, regionalisation processes initiated under the Government's broader public sector reforms have continued. Following on from a 2001 White Paper on the role of the different levels of government[15] and a 2002 White Paper on local level democracy,[16] the county authorities have become the main policy actor at the sub-national level. They are to be given increased powers in the administration of district and regional policy instruments, taking the lead in formulating Regional Development Programmes (RDPs) and encouraging regional partnership.[17] The funds allocated directly to the counties increased in 2003 and they are now able to take their own

[15] *St.meld. nr. 31 2000 - 2001 Kommune, fylke, stat – en bedre oppgavefordeling*

[16] *St.meld. nr. 19 2001 – 2002 Nye oppgaver for lokaldemokratiet – regionalt- og lokalt nivå*

[17] Ministry of Local Government and Regional Development website: http://www.odin.dep.no/krd/engelsk/publ/rapporter/016051-040004/index-dok000-b-f-a.html

strategic decisions, informed by regional and national priorities, rather than acting within centrally-defined frameworks, as before. Thus, the counties now have the opportunity to prove that they can efficiently carry out the responsibility of being the main regional development actor, bringing together municipal views as part of the regional partnership.

In the ***Netherlands***, two major papers published in 2004 (*Peaks in the Delta: Territorial Economic Prospects*[18] and an interdepartmental review of the future of Dutch regional policy) have set out current approaches to centre-region relations. While the point is made that the sub-national level (provinces, municipalities and business within these areas) should take the initiative in improving the business environment in their areas, these papers set out a leading policy role for the centre. In particular, the Ministry of Economic Affairs is charged with developing a policy vision to exploit the different regional opportunities in the different Dutch regions and then ensuring that this vision is implemented. This involves being prepared to make explicit policy choices in support of the vision, working together with sub-national authorities and the private sector to bring about more coordinated actions at the sub-national level in line with agreed priorities and reviewing the activities of central government in the regions to make certain that it operates in the most effective and coordinated manner to bring about the desired policy outcomes.

5.1.5 Conclusions

Analysis of these regionalisation processes reveals a wide range of structures, roles and capacities. Despite this diversity, the development of new modes of regional policy administration, occurring throughout Europe, produces some common themes. First, regardless of different ‘starting points’, regionalisation is an almost universal trend. In traditionally centralised states the implementation of Structural Funds has stimulated creation of specific frameworks and institutions which have filled an institutional void at regional level. In federal states, the power of the regions is being reasserted. Regionalisation has been an important driver in countries undergoing constitutional or administrative reform. For several Member States, the process has involved a search for the optimal size and legal or constitutional status of sub-national levels. In the Nordic Countries and France, for instance, joint-municipality groupings are increasingly seen as a means of aggregating political legitimacy and financial potential to gain economies of scale.

Second, although central government retains a legitimate interest in regional policy through setting the macroeconomic framework and sponsoring regional development, its functions are changing. The traditional role of the centre as a direct promoter of regional development is generally declining as regional and local authorities become more closely involved in the design and delivery of regional policies. Roles for central government focus increasingly on facilitation and support of the development of regional and local economic development strategies, the building of capability, the development of regional infrastructure, and the coordination of policy and service delivery across agencies. This process has been reflected in a variety of administrative contexts. The profile of the Danish government’s National Agency for Enterprise and Housing (NAEH) and the new state agency Innovation Norway reflect new regional policy approaches. These agencies no longer simply

---

[18] Ministry of Economic Affairs, *Peaks in the Delta: Territorial Economic Prospects*, The Hague, July 2004 (Ministerie van Economische Zaken, *Pieken in de Delta: Gebiedsgerichte Economische Perpsectieven*, The Hague, July 2004)

administer central programmes and channel state funds in the regions but are also now actively involved in regional partnerships that aim to develop distinct development strategies. Recent regionalisation processes in Italy have been accompanied by increased emphasis on the Department for Cohesion Policies in the creation of normative frameworks where reciprocal responsibilities are made explicit (e.g. through the different contractual forms) and in the facilitation of exchange fora and other opportunities for dialogue among sub-national actors. This evolving role for central government is appropriate for the 'all-region', productivity-driven regional policy rationale. However, it raises questions about the role of central government in pursuing equity considerations, i.e. in providing support for weaker regions where the economic development challenge is greater or where there is less experience of more autonomous institutional interaction. Treating unequals equally may not be the best method of promoting equality.[19]

Third, the emphasis on the regional contribution to programming and networking has opened up the system of policy making and loosened hierarchical controls. A variety of partners at regional level are emerging, with various resources, agendas and legal or political standing, often interacting in complex, informal ways. This, in turn, is placing increased stress on enhancing policy coordination. The following section reviews current approaches to coordinating regional policy across and between administrative levels.

5.2 Policy Coordination

The range of actors now involved in regional policy implies the need for greater coordination across and between different administrative levels. Increasing emphasis on the complex issues of productivity and competitiveness also points to the importance of coordination mechanisms. There is a perception that traditionally exclusive departmental structures and hierarchical centre/regional relations are incapable of dealing with a complex policy issue, such as economic development, that reaches across sectoral boundaries and administrative tiers. There is more focus on finding 'holistic' solutions to complex policy problems and this has prompted a search for new vertical and horizontal instruments.

5.2.1 Regional level coordination

At the regional-level, parallel processes of organisational consolidation and strategy development are vital to enhanced policy coordination. Coalitions of different regional actors are institutionalised in a variety of ways, most notably the formulation of partnership-based regional development strategies. The aim is to create an organisational setting where organisations work more closely together in networks, reflecting the need to streamline regional development systems where the number of sub-national actors has mushroomed.[20] The influence of the Structural Funds has been prominent in this approach. The process of implementing the Funds, particularly the requirement to produce multi-annual, integrated regional development

---

[19] Morgan, K. (2002) The English Question: Regional Perspectives on a Fractured Nation, Regional Studies 36, Number 7

[20] See Halkier, Henrik & Charlotte Damborg (2000) Development Bodies, Networking and Business Promotion - The case of North Jutland, Denmark, in Mike Danson, Henrik Halkier & Greta Cameron (eds.): *Governance, Institutional Change and Regional Development*, Aldershot: Ashgate, pp 92-114; and Halkier, Henrik & John Evan Flockhart (2002) The Danish Cases - Bottom-up Initiatives between Regional and National Environments, in Anders Östhol & Bo Svensson (eds.): *Partnership Responses - Regional Governance in the Nordic States*, Stockholm: Nordregio, pp 41-84..

plans, has stimulated the creation of cross-institutional programme groups and increased coordination at the regional level.

In countries with a corporatist tradition (e.g. Austria, Germany, the Netherlands and the Scandinavian countries) coalitions between different sub-national actors are institutionalised through a range of participatory mechanisms. In ***Denmark**,* the spatial and institutional scope of *coordination* through network building has been extended in the past few years. A 2003 White Paper focused on inter-regional and sub-regional cooperation through Regional Business Development Coalitions and Regional Growth Coalitions. A process of gradual mergers between parallel bodies sponsored by regional and national authorities has also taken place. These new arrangements bring together public administration and private actors at the regional level. The goal is to bring forward project proposals with regional and local perspectives that can further economic development on the basis of more general strategic priorities.

In ***Finland***, Regional Councils have responsibility for implementing strategic regional programmes that aim to integrate national special programmes and EU Structural Fund programmes in the region, whilst also taking account of guidelines set down in longer-term regional plans. However, Regional Management Committees, originally established for Structural Funds purposes, play an important part in the coordination process. They are tripartite bodies with equal representation from the Regional Council and its constituent municipalities, the representatives of State bodies in the region and the social partners. Within each region, the Regional Management Committee discusses regional strategies and tries to create a regional consensus around them.

As already noted, improved policy coordination lies at the centre of new approaches to regional development policy in ***Sweden***. Regional Growth Programmes (RGPs) have replaced Regional Growth Agreements as key coordination instruments. They provide a framework for economic development, identifying policy directions and setting a spending framework. RGPs are based on partnerships consisting of state agencies, municipalities and the business sector. The potential for regional coordination has also been boosted by the 2001 Bill on regional cooperation and administration. This gave municipalities within a county the opportunity (on the basis of unanimity) to form together to create a cooperative organisation with certain economic development functions, including RGPs. The hope is that this will encourage greater cooperation between municipalities, allowing them to take over coordinating functions from the County Administrative Board (CAB).

Regional coordination is also stressed under the new, highly devolved system of regional development spending in ***Norway***. Although regional development budgets now lie at the *fylke* (county) level, the *fylke* are required to discuss and develop their spending plans and Regional Development Programmes in partnership with municipalities, the regional offices of Innovation Norway and the local offices of central government ministries, as well as with trade union and business representative organisations.

In other countries, moves to improve sub-national level policy coordination through strategy development and organisational consolidation are also underway. In ***Italy***, the use of bottom-up, partnership-based strategies for economic development, such as the contracts, pacts and integrated projects agreed between local authorities, the private sector and local financial institutions and development agencies, is now established. One aim is to facilitate the design of complex, cross-sectoral projects by establishing streamlined, coherent frameworks that respond to development

challenges in specific parts of a region's territory. Similar motives underlie recent developments in the ***United Kingdom***, where the ability of English Regional Development Agencies to coordinate regional economic strategies has been boosted through the ongoing expansion of their competences in different policy fields and increased spending flexibility. As noted above, there has also been a recent increased emphasis on cooperative action at the regional and local levels in ***France***. This is, perhaps, most clearly reflected in the increasing policy-making competence and financial weight of inter-municipality associations. In fact, the emergence of these associations as powerful sub-national actors is currently prompting debate over how their activities can be better coordinated with other regional and local bodies (such as regions and individual communes).

It is worth reiterating that a feature of regional-level coordination is the gradual merging of parallel economic development and business support services, previously sponsored by a combination of national and regional authorities at the regional level. The aim is to simplify the provision of these services and increase the coordination and coherence of policy administration at the regional level. As discussed earlier, in a range of countries there have been recent steps to enhance the efficiency of business support services, notably those focused on SMEs, by streamlining and improving the coordination of existing agencies and initiatives in order to provide a 'one shop stop'.

To sum up, regions across Member States are moving to improve the coordination of various institutions, to integrate disparate interventions into coherent regional strategies and, by aggregating budgets at the regional level, to enhance policy impacts. At the same time, this is prompting further questions about how the 'region' is defined. Who should be incorporated into coordinating arrangements in a policy field that is increasingly seen to transcend traditional administrative and sectoral boundaries? Should coordinating frameworks and strategies be based on politico-administrative divisions, 'economic spaces', selected economic policy fields or other criteria? There is also an ongoing tension between the need for economies of scale and the degree of local participation in coordinating regional development.

5.2.2 National-level coordination

As noted above, part of the changing perception of the regional challenge is awareness that the issue of regional economic development encompasses an array of policy sectors and that the activities of a range of central government departments have an economic impact on regions. Consequently, there is increasing focus across Member States on coordinating the regional dimension of central interventions.

In the ***United Kingdom***, concerted, cross-departmental approaches to regional policy design and delivery, particularly between the Treasury, DTI and ODPM, are being established. These departments now share a regional development Public Service Agreement (PSA) target. This is, in part, a response to past criticisms where departments have been censured for failing to work together to co-ordinate policies with a regional dimension.[21] A report, commissioned by the ODPM and published in September 2003, aimed to ascertain the form and level of public expenditure (domestic and European) flowing into individual English regions from all government departments and to identify – for each expenditure flow – what determines the level

[21] Cabinet Office (2000) *Wiring It Up: Whitehall's Management of Cross-cutting Policies and Services London*: Performance and Innovation Unit

of that expenditure.[22] This is seen as an important step in clarifying and coordinating the relationships between different departments in the regional policy field.

In ***Sweden*****,** an important strand of recent administrative reforms is to achieve effective regional policy coordination at the national level. Policy areas that are either "especially" responsible for attaining regional policy goals or have specific regional goals or a clear regional dimension in their policies have been identified and these must take the regional consequences of their policies into account and co-ordinate their activities to achieve regional goals. The challenge of establishing a regional perspective in the activities of sectoral ministries is illustrated in the 2004 ex-ante evaluation of the RGPs. This argues that there is a need for further clarification from the Government side as to how the relationship between sectoral and regional development priorities should function.[23]

In ***Finland*****,** the stress placed on the national coordination of policy is very evident. Following a Government Decision in July 2003, ten central government departments have been charged with taking regional priorities into account in developing their regional approaches and budgets. This drive for improved national coordination of policy was reinforced in a January 2004 Government Decision that national goals and objectives have priority and must be taken into account both within strategic regional programmes and in the regional plans and budgets of sectoral ministries.

In ***Denmark***, sub-regional cooperation through the Regional Growth Coalitions also involves enhanced horizontal cooperation within central government, as well as the increased importance of vertical inter-tier cooperation through the direct involvement of government departments in sub-regional initiatives. As part of a recent review of centre-region relations in ***France***, the Interministerial Committee for Regional Development Policy (CIADT) has noted the need to examine the long-term impact of central government investments on regional development.

National governments of Member States are, thus, exploring how best to coordinate a variety of strategies (e.g. spatial, planning, urban, industrial) in order to form a more coherent national framework and vision for regional development. Nevertheless, coordinating policy interventions remains is a challenge, not least given traditions of distinct departmental financial and policy-making arrangements.

5.2.3 National-regional coordination

The purpose and operation of mechanisms used to coordinate regional policy across national and regional administrative tiers vary according to the role allocated to the regional level in policy-making and implementation. A range of approaches are apparent, including the direct control and accountability of sub-national bodies to central government, contractual mechanisms for the implementation of certain regional development activities, and planning frameworks and covenants within which sub-national authorities can design and pursue their own policy objectives. An obvious distinction can be made between unitary and federal systems.

In federal Member States, the purpose of coordination is to ensure that regional policies, which are the constitutional responsibility of the regional level, do not conflict

[22] McLean, I (2003) *Identifying the flow of domestic and European expenditure into the English regions*, Report commissioned by ODPM.

[23] ITPS, "Ex ante bedömning av de regionala tillväxtprogrammen. ITPS sammanfattande rapport til Näringsdepartementet", Östersund 2004.

with national development goals. Traditionally, this has been achieved by directly involving the national level in the planning and/or financing of regional development initiatives. In ***Austria*****,** coordination between the three levels of government is facilitated by the federal government's Chancellery (*Bundeskanzleramt*, BKA) and the Austrian Conference on Spatial Planning (*Österreichische Raumordnungskonferenz*, ÖROK). In practice, coordination depends on consensus, although some legal bases for coordination have been established – notably a 2001 federal law which set out the framework for coordination between *Bund* and *Länder* in relation to EU Structural Fund programmes,[24] and an earlier federal law which accords the BKA responsibility for coordination.[25] The BKA has the task of coordinating all Structural Fund programmes and is the paying authority for the ERDF for all SPDs. ÖROK's board is made up of all federal Ministries, all *Länder*, the two associations of local authorities, and the socio-economic partners. It undertakes a range of coordinating activities, including acting as the Monitoring Committee Secretariat for all SPDs, and also produces the consensus-based ten-yearly strategic plan (ÖREK).

As noted above, in ***Germany***, ongoing debate in the Federal Commission over the division of responsibilities and expenditure capacities between the *Bund* and *Land* levels involves discussions over the future of one of its most significant coordination instruments, the GA Joint Task for the Improvement of Regional Economic Structures. The recent decision to scale back federal funding, through the GA, in western regions, perhaps reflects a readjustment of *Bund* and *Land* involvement in policy coordination, with the latter playing a more prominent role. The process is uneven: there may also be specific changes in the ways in which different *Länder* implement regional policy, which may be of considerable importance both regarding policy effectiveness and in political/administrative terms.

In ***Belgium*** decentralisation legislation in the 1980s made regional policy the responsibility of the regional level. However, the 1970 Economic Expansion Law continued to provide a national framework for regional aid schemes. Recently, this long-standing national framework legislation has been replaced by regional framework legislation in Flanders (and similar legislation is being implemented for Wallonia and Brussels-Capital). These developments mean that, above the regional level, regional policy coordination now only takes place within the framework provided by the EU's State aid rules.

In ***Spain***, intergovernmental relations between the centre and the regions have been determinedly bilateral and intensely political in the past.[26] This has partly been motivated by the asymmetrical nature of the devolution settlement which permitted different regions to acquire competencies at different speeds and therefore required bilateral negotiation to accommodate the varied needs and demands of the system. The main institutional mechanisms for ensuring vertical policy co-ordination are the regular sectoral conferences, involving representatives from both central and regional government. Some prominent academics consider these to be a rather weak

[24] Republik Österreich, *Vereinbarung zwischen dem Bund und den Ländern gemäß Art. 15a B-VG über Regelungen zur partnerschaftlichen Durchführung der Regionalprogramme im Rahmen der EU-Strukturfonds in der Periode 2000 bis 2006,* Bundesgesetzblatt für die Republik Österreich, 21 December 2001, Nr. GP XXI RV 564 AB 889 S. 83. BR: AB 6503 S. 682

[25] Republik Österreich, *BMG 1986 i.d.F. BGBl. I Nr. 16/2000*, Anlage zu § 2, Teil 2, Abschnitt A, Z.1

[26] Aja, E. (2001) Spain: Nation, nationalities, and regions' in Loughlin, J. (ed.) (2001) Subnational Democracy in the European Union (Oxdford: Oxford University Press).

coordination mechanism due to the lack of a legal and constitutional foundation.[27] However, since 2002, all regions have been placed on equal footing in terms of competencies and it is expected that horizontal and vertical coordination will be given greater political priority.

In unitary Member States, where governments are transferring policy responsibilities to the regions, the role of coordination in rectifying specific regional problems while maintaining overall consistency and coherence is stressed. In ***Finland*****,** national-regional coordination has been strengthened since the regional arms of national ministries input directly into the regional programmes. Moreover, the January 2004 Government Decision stated that national goals and objectives have priority and must be taken into account both within the strategic regional programmes and in the regional plans and budgets of sectoral ministries. At the same time, national sectoral ministries are now obliged to formulate their own regional plans and priorities taking the varied needs of the regions into account.

In ***France***, a range of instruments aim to improve national-regional policy coordination. *Schémas de services collectifs*, adopted by *décret* in April 2002, aim to provide a long-term frame of reference for the provision of public services across the country. *Contrats de plan* (State-region planning agreements) are also significant. The December 2003 CIADT initiated the process of reforming the *contrats*. The reform aims to: clarify the objectives and priorities of *contrats*; simplify their financing and implementation arrangements; and, align them more closely with broader economic and/or electoral cycles. As noted above, in ***Denmark*** the spatial and institutional scope of coordination has been extended. The role of *the* NAEH as a facilitator of networking at national and sub-national levels has become increasingly vital. Its involvement, along with government departments, in the development of Regional Growth Coalitions, is a significant factor in vertical, inter-tier coordination. Recent regionalisation processes in ***Italy*** have also seen central departments becoming much more active in the creation and support of multi-level coordination frameworks.

A key element in national-regional coordination in the ***United Kingdom*** is the system of targets designed to monitor the performance of individual RDAs. The second group (Tier Two) of these targets relate to regional outcomes that the RDAs are charged with delivering at a regional level, with help from partners. They exist in eleven categories (sustainable economic performance, regeneration, urban, rural, physical development, employment, skills, productivity, enterprise, investment and innovation). Although the regional outcomes specified by Government are common to all RDAs, the actual indicators and methodology chosen to measure progress are chosen in each region. The latest round of consultation between central government and the RDAs, prior to the Spending Review 2004, has been geared towards aligning RDA targets more closely to regional priorities. The Treasury has asked regions to identify PSA Targets which have a strong regional dimension or impact; to set out the role which regional institutions can play in the delivery of the Targets; and, to make any suggestions for refinement to ensure that the regional dimension is recognised. The Treasury has also promised the RDAs that – where appropriate – new national policy will be subject to a regional proofing system to ensure that any new legislation fits in with local goals. Nevertheless, emphasis on meeting national targets may not always coincide with RDA aspirations to set economic investment priorities based on regional needs. Tensions remain over how the Government will reconcile the need to

[27] Aja, E. (2001), *op.cit*.

provide a national framework with regionally-tailored targets, coherent with Regional Strategies, without creating either an unwieldy system or a set of targets that are irrelevant or unrealistic for some regions.

In the ***Netherlands***, policy coordination was a significant feature of the new policy memorandum on future spatial economic policy. Considerable stress is placed on formal agreements being reached between the government and sub-national actors. The hope is, for instance, that contracts will be signed between the national government and each of the regions to progress the agreed priorities at the regional level. In similar vein, in the urban policy field, the intention is to sign covenants with each of the 30 big cities, covering their urban development plans over the 2005-09 period. At the same time, in order to conclude agreements about how central and regional authorities can best coordinate their efforts to boost regional growth capacity, the Ministry of Economic Affairs undertook a major review of the economic prospects of six Dutch regions, in association with the relevant sub-national authorities.[28] This then led to an analysis of the economic potential of each region, set in the context of national policy priorities. This has informed the government's future economic priorities at the regional level.

In summary, national-regional coordination mechanisms are now a significant feature of regional policy administration across the EU. Coordination can be based on the direct involvement of national and regional bodies in the formulation of regional development programmes (as in Sweden and Finland), submission of regional plans to national regulatory guidelines (as in the United Kingdom), the use of national-regional agreements with varying levels of formality and legal status (such as French *contrats* or Dutch covenants) or shared planning/financing arrangements (as in Germany and Austria). In most cases, this has involved increasing emphasis on the articulation of specific regional agendas from the 'bottom up'. An exception appears to be the Netherlands, where the process of identifying distinct regional agendas has been led primarily by the centre. In both unitary and federal systems, recent experience demonstrates the difficulty of managing a coordinating framework with an 'all-regions' perspective in an environment where there are major differences in economic prosperity and specific regional development challenges, and at a time of budgetary constraint. This challenge, at least in part, explains the increasing significance of iterative evaluation as a component of regional policy administration. The following section reviews briefly some of the key themes to emerge from this process.

5.3 Policy evaluation

Evaluation is one of the emerging aspects of new regional policy approaches across Member States. The process is driven by: commitment to 'evidence-based' policy-making, 'value for money' considerations in a context of budget constraints, more sophisticated assessments of the 'regional problem' and processes of devolution and decentralisation. The issue, covered in detail in one of this year's thematic papers,[29] cuts across processes of policy regionalisation and coordination. In some cases, the devolution of policy evaluation responsibilities to sub-national levels has been a significant part of broader regionalisation processes. Evaluation procedures can also

[28] Ministerie van Economische Zaken *Naar gebiedsgerichte economische perspectieven*, The Hague, December 2002

[29] EoRPA Paper 04/5

be a means for coordinating national and regional policy responses. On the other hand, evaluation can be a significant instrument for central control where a range of devolved agencies and instruments are involved. As a result, evaluation has a new, multi-level institutional framework, involves a more iterative and strategic approach (with particular emphasis on ex-ante evaluations) and has a broad scope that can incorporate various programmes and policy areas. Increasingly, evaluation is not being regarded as an abstract exercise but as an integral part of the policy-making process. At the same time, this presents significant challenges. How do you measure subtle, complex or intangible policy impacts? How do you encourage specific evaluation approaches within devolved or decentralised bodies while maintaining an overarching perspective? In an era of 'joined-up' policy making, how can the individual contribution to regional development of a variety of institutions and initiatives from various levels and policy fields be individually identified and evaluated?

6. THE NEW MEMBER STATES

6.1 Introduction

In the new Member States (NMS) of Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia, recent years have seen the gradual development of an increasingly integrated and coherent approach to regional policy, as well as related institutional and programming arrangements. Driving the process is a combination of regional pressures, national policy responses to spatially uneven development, and the EU accession process. However, reforms have been implemented against a background of decades of centralised, sectoral policy-making and with limited national regional policy resources. Consequently, the process of embedding new regional policy practices is likely to be a long one. This section outlines how regional policy in the new Member States has responded to current regional development challenges by reviewing the nature of the regional problem, recent regional policy developments (both overall and with respect to the different components of policy) and changes in the approach taken to policy administration.

6.2 Perceptions of the Regional Problem

The framework for regional analysis in the NMS is generally based on NUTS III or NUTS II regions, which were adopted in advance of EU enlargement. Out of 41 NUTS II regions in the new Member States, 38 qualify for Objective 1 support; only the regions of Prague and Bratislava and the southern part of the Island of Cyprus have Objective 2 status (see Figure 6.1). The main patterns of regional disparity in the Central East European (CEE) NMS can be characterised as follows:

- *Capital cities/major urban agglomerations* which demonstrate the most favourable economic indicators, benefiting from e.g. high investment, skilled labour force and training facilities, more developed infrastructure, business services and access to decision-makers. Some capitals (e.g. Budapest, Prague, Tallinn, Bratislava) are highly dominant in the national economic structure.

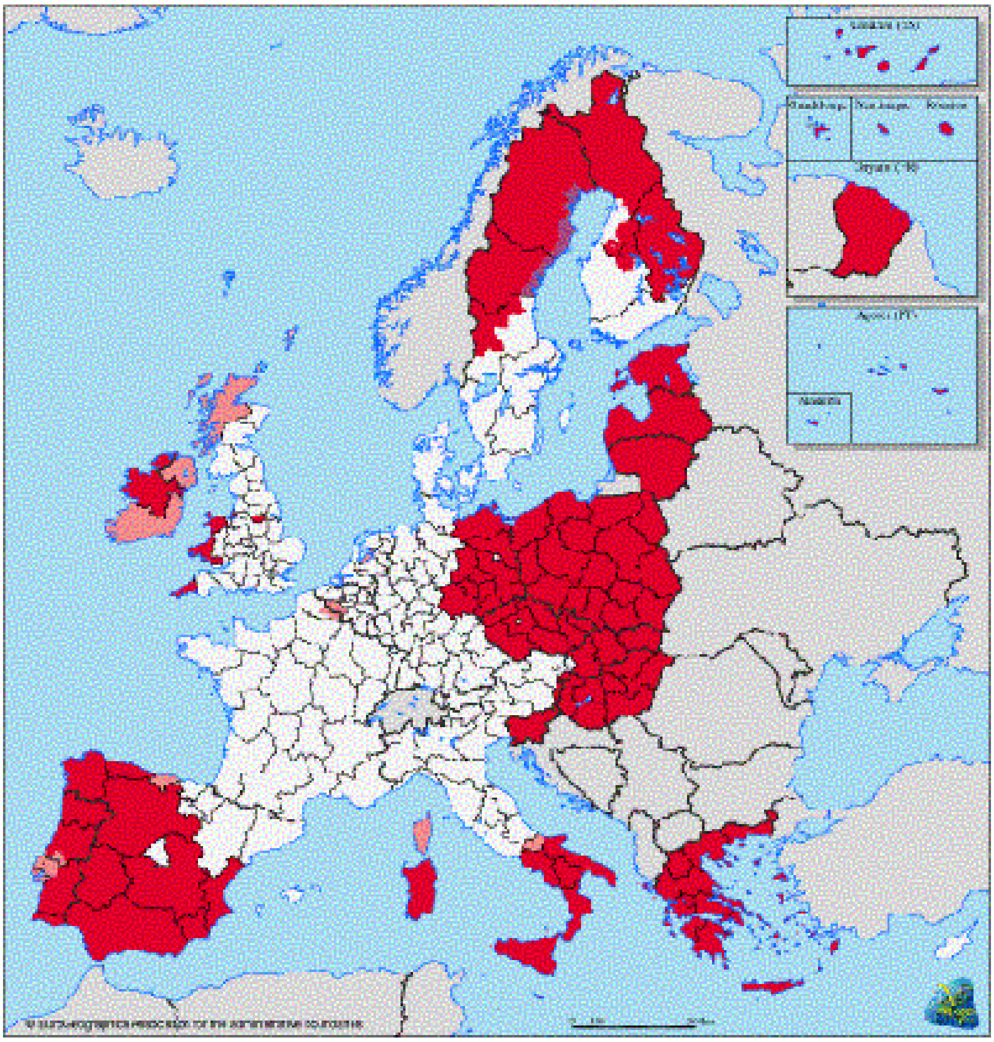
- *Western border regions* which have benefited from proximity to EU-15, which has encouraged investment, trade, tourism and cross-border retail and educational/technological initiatives.

- *Peripheral eastern and rural regions* which are among the most economically disadvantaged in the NMS. Geographical location, poor infrastructure, low investment, declining agriculture and rural out-migration are all contributory factors. These regions have particularly high rates of unemployment.

- *Old industrial regions*, the drivers of economic activity under socialism, which have been particularly negatively affected by privatisation, enterprise restructuring/closures, subsidy loss and market re-orientation. Problems include unemployment, lack of entrepreneurship and environmental decline. A full process of restructuring is still being undertaken in some old, mono-structural areas.

The experience of Cyprus and Malta is distinct from the CEE NMS. Development concerns in the two island economies are strongly linked to their overall geographical conditions: small islands on the periphery of the EU.

Figure 6.1: Objective 1 Regions



- Regions eligible under Objective 1
- Transitional support under Objective 1
- Special programme to assist coastal areas of Sweden

Source: http://europa.eu.int/comm/regional_policy/objective1/map_en.htm

Across the New Member States and within each country there are sizeable variations in GDP per head and unemployment rates (see Table 6.1). This can also be seen in the maps presented in Figures 2.1 to 2.4 in Section 2. Additionally, despite comparatively high growth rates, economic convergence with EU15 countries remains limited.

Table 6.1: NMS Regional Statistics (NUTS II)

Country	Average annual real growth rate, 1995-2001	GDP (PPS) per head (1999-2001) EU25=100	Lowest GDP per head (1999-2001) EU25=100	Highest GDP per head (1999-2001) EU25=10	Average unemploy-ment rate (%) 2000-02 EU25=8.8	Lowest unemploy-ment rate (%) 2000-02	Highest unemploy-ment rate (%) 2000-02
Cyprus	3.8	83.9	-	-	4.1	-	-
Czech Rep	1.5	65.5	Strední Morava (52.5)	Praha (142.3)	8.1	Praha (3.9)	Moravsko slezský (14.1)
Estonia	5.2	40.8	-	-	12.2	-	-
Hungary	4.0	54.3	Ėszak-Magyarország (35.2)	Közép-Magyarország (83.6)	6.0	Nyugat Dunántúl (4.2)	Ėszak-Magyarország (9.2)
Latvia	5.7	34.8	-	-	13.1	-	-
Lithuania	5.1	39.0	-	-	15.3	-	-
Malta	4.8	77.6	-	-	6.9	-	-
Poland	6.3	45.2	Lubelskie (31.5)	Mazowieckie (68.4)	18.1	Malopolskie (13.6)	Warmńnsksko -Mazurskie (24.3)
Slovakia	3.9	48.1	VýchodnéSl ovensko (36.2)	Bratislavský kraj (106.8)	18.9	Bratislavský kraj (8.1)	Východné Slovensko (23.4)
Slovenia	5.1	73.6	-	-	6.4	-	-

Source: DG EcFin, DG Enlargement and Eurostat

6.3 The Policy Response: An Overview

In the lead up to enlargement, the EU policy context was widely acknowledged to have exerted a very strong influence on NMS approaches to regional development. The prospect of EU accession gave the Commission considerable leverage over aspiring members. The publication of Regular Reports and Accession Partnerships applied pressure by assessing applicants' adoption of the *acquis communautaire* and set out short- and medium-term objectives for future reform. Meeting the demands of the *acquis* and preparing a suitable system for the administration of EU funds required major institutional and administrative reforms in the new Member States, which have had a knock-on effect on national regional policy.

A series of national legislative reforms set out new frameworks for regional policy, bringing national approaches into line with EU requirements. In Latvia, for instance, the integration of EU and national regional policy was one of the key objectives listed in the country's Concept of Regional Development Policy. The Slovak Act on Support of Regional Development similarly takes the basic principles of economic and social cohesion of the European Union into account, i.e. the principles of programming, partnership, concentration and complementarity.

As Cohesion countries with (mainly) Objective 1 funding, the NMS have in place National Development Plans (NDPs), which will involve investment of more than €24 billion in Community support from the Structural and Cohesion Funds over the 2004-06 period. The NDPs generally set out similar global objectives in terms of improving living standards, raising the level of GDP per capita, and creating employment. In part, this is due to the fact the majority of the new Member States face similar key challenges. The aims are also strongly influenced by the eligibility criteria of the Structural Funds.

As well as common policy challenges and objectives, national regional policies reflect the particular territorial development challenges faced by individual or groups of countries. For instance, a number of regional development concepts highlight specific practical tasks or development issues. Regional policy objectives in Cyprus and Malta are strongly linked to geographical conditions in these countries. In Estonia, long-standing problems linked to rural development are targeted. In Slovenia, regional policy has traditionally targeted 'demographically endangered areas' in an attempt to halt out-migration and the de-population of highland and peripheral areas. In their regional development guidelines, Lithuania and Estonia highlight the need to develop infrastructure and improve levels of connectivity between regions. In particular, Estonia's Regional Development Strategy refers to the importance of increasing mobility and access to rural and island areas. Variations in regional policy objectives suggest that, as well as being subject to external policy pressures and influences, national regional policy is also rooted in specific national territorial development conditions.

6.4 The Components of Regional Policy

Before outlining the main regional policy instruments employed in the NMS, it is important to note a number of caveats. First, the resources available for national regional policy in the NMS are generally very limited. Second, even with limited resources, absorption capacity for regional development funding is a problem. In the lead up to EU enlargement, particular concerns have been raised in relation to the ability of the new Member States to utilise all the money available to them. Similar concerns have been expressed about national regional policy instruments. For instance, in Hungary, considerable sums linked to regional policy support cannot be spent and remain in the budget each year. In other cases, awareness of national regional policy instruments is not necessarily high and regional policy instruments are not used to their best effect or do not reach suitable end-beneficiaries.

6.4.1 Regional incentives

In the majority of the NMS, regional incentives form an important component of regional policy. The Czech Republic, Latvia, Lithuania, Slovakia and Slovenia all have, or propose, systems of regional incentives for private-sector firms. However, the specific types of incentive offered vary and are applied in various combinations. Tax relief for enterprises has been one of the most commonly available incentives (e.g. in Estonia, Czech Republic, Hungary, Latvia, and Slovakia). Eligibility is often restricted to specific types of enterprise (eg. SMEs in the case of the Czech Republic and Latvia), to particular types of investment (eg. long-term investments in regional development areas in Hungary) or to relief from selected taxes (eg. tax on profit and customs duties). Amongst the other types of financial incentive offered are: soft loans, interest subsidies, grants, guarantees for bank loans and depreciation allowances.

In comparison with the EU15 Member States, where the focus of regional aid has traditionally been on grants, the NMS have tended to favour loans, interest-rate subsidies and, especially, tax incentives. There are three main reasons for this. First, the necessary financial resources are generally not available to provide non-repayable subsidies to enterprises. Second, the institutional infrastructure is not yet fully in place to enable government authorities to appraise, award and monitor grant aid. A third factor may be a conceptual or political aversion to grants. Several national governments (eg. Estonia and Slovenia) have stated that regional policy should avoid giving grants to enterprises due to the process of reducing industrial

subsidies and promoting a market-oriented mentality among entrepreneurs and business managers.

Where financial incentives are in place, they are applied in one of two main ways, which differ according to the emphasis placed on equity or efficiency goals. First, the level of financial incentive granted can be regionally differentiated. For instance, in Estonia, regionally differentiated credits are available. In the Czech case, standard economic and financial instruments are applied with greater intensity in certain areas or are regionally differentiated. Second, particular financial incentives are targeted solely at designated areas. For instance, in Latvia, the Regional Development Fund provides financial support for SMEs in 'disadvantaged areas'.

EU accession means that regional incentives have to be brought into line with EU State aid regulations. A number of the schemes on offer before enlargement may have to be phased out or be heavily modified. The European Commission has already judged a number of tax incentives schemes and 'special economic zones' in Poland to be 'harmful' to the EU internal market.[30]

6.4.2 Framework support for business

Other regional policy instruments, which are implemented in a number of countries, are framework measures to improve business conditions in problem regions. This form of assistance can include the provision of physical infrastructure, together with softer measures. Specific policies and the types of measure employed vary between countries. For example, indirect action to promote framework measures is used to expand the capacity of local governments and authorities to facilitate development. More specific measures to improve the business environment include: business promotion centres operating at the county level (Estonia); support for business services, including incubator units and business parks (Hungary) and measures to improve local and regional infrastructure and enhance access to vocational training. These types of measure are applied either to single regions (in the interests of boosting the development of lagging regions) or across all regions (to promote endogenous development). Frequently, the use of such instruments reflects a shift towards support for regional competitiveness through enhancing indigenous innovation capacity (e.g. in Estonia).

As well as a need for improved economic infrastructure, lack of basic transport infrastructure is also seen as a key area of economic weakness in many of the NMS. Most often, only very general references are made to infrastructure development in national policy documents (e.g. national regional development strategies or national development plans). For instance, in their regional development guidelines, Lithuania and Estonia highlight the need to develop infrastructure and improve levels of connectivity. The current National Development Plans of Latvia and Slovakia also have infrastructure development as one of their main programming objectives. However, these plans are more closely related to EU development programmes than national regional policy; as such, they have the potential to draw on greater financial resources and support for large-scale infrastructure developments.

6.4.3 Regional programmes and strategy development

Combinations of national plans, national regional development strategies, regional development strategies and district plans are either in operation or are being

[30] Financial Times, (2003) New Members' Tax Rules 'Harmful' to EU, Financial Times 21 July.

developed in each of the NMS. For instance, regional development policy in Poland is increasingly perceived from a strategic, long- or medium-term reform perspective, rather than as a series of one-time annual initiatives. The country has developed a National Strategy for Regional Development, which forms the basis of regional policy. Similar roles are fulfilled by the Estonian Regional Development Strategy and the National Regional Development Concept in Hungary. All of these plans offer the potential to deliver more integrated, coherent policy instruments. When developed by, or in consultation with the regions, they also have the potential to address the specific development needs of individual regions, taking into account their development potentials and bottlenecks.

6.5 The Administration of Regional Policy

Throughout the new Member States, important changes have been made to regional policy administrative structures and the relative division of powers between levels of government. These institutional reforms have had a direct impact on the way regional development policies are formulated and implemented. New approaches increasingly emphasise the delegation of political and economic power to sub-national levels so that regions can steer spatial development within their territories and so develop competitive advantages to deal with the pressures of an increasingly globalised environment. Although institutional frameworks for the development and implementation of regional policy vary, certain common elements and themes are emerging, most notably a new role for central government and a degree of regionalisation.

In the past, some regional responsibilities were divided between ministries, but regional policy interventions were generally *ad hoc* and uncoordinated. Now, responsibility for the elaboration and implementation of regional development programmes has, in most instances, been allocated to a single central government department. National ministries and agencies are also increasingly acting as coordinators and partners in regional development, setting down the framework or guidelines and overseeing the coordination mechanisms within which the regional level can formulate and implement policy. Almost all of the NMS have established inter-ministerial institutions with the aim of increasing levels of cooperation and consistency in regional policy. For example, Hungary has the National Council for Regional Development to prepare regional policy decisions and coordinate activities between national ministries, national economic chambers, national-local government partnerships, foundations and academic organisations.

Several countries have also established separate organisations to support the design and implementation of regional policy. The specific competences of these bodies differ between countries. Some institutions were established merely as support services, while others play a more active role in policy implementation. The Czech Centre for Regional Development was established as the main implementing agency for PHARE regional development programmes, but also plays a wider role by offering objective and methodological support for the actions of regional development agencies. The Estonian Regional Development Agency plays a more active policy implementation role. It was established to work on behalf of government ministries with regional development interests, counties, local governments and business associations. It manages regional policy activities, such as the administration of regional development programmes and regional incentives, and also provides technical support to regional development institutions. Taking all of these developments together, the last few years have witnessed a marked shift towards a more coherent and co-ordinated approach by those central institutions involved in regional policy.

However, there are some weaknesses in these positive trends. First, the allocation of ministerial responsibility for regional policy is often subject to significant political factors. For instance, in Poland, the decision to transfer regional co-ordination duties from the Ministry of Economy to a new dedicated Ministry for Regional Development in 2000 was reversed by a new coalition government in 2001. Second, new co-ordination mechanisms for regional policy at the central government level are only beginning to address entrenched norms and attitudes. Ministries continue to play separate roles in the regional policy field, operating their own 'regional policies' with their own budgets, programmes, regional offices or agencies. In some cases, sectoral ministries have remained resistant to the idea that their activities should be co-ordinated within a broader regional policy framework. Finally, co-ordination mechanisms with regional institutions are under-developed.

In the past, the regional administrative tier tended to be weak or non-existent in many of the NMS, but the situation is changing. Increasingly dense networks of sub-national bodies are emerging to participate in regional policy. Despite some diversity, the development of these new modes of regional policy governance has produced common, basic elements in the new regional institutional architecture.

- Regional Development Agencies (RDAs): These were among the first regional-level institutions to become involved in the policy process. RDAs are usually non-profit organisations and their key activities can include: the development of their regions through regional operational programmes and development projects; providing support for the entry of foreign investment into regions; and assistance in the promotion of entrepreneurship and industrial parks. RDAs play a variety of roles in different national contexts.

- Planning Regions: New planning regions have been established in several NMS to comply with European Commission criteria for NUTS II or III levels. These new regions have been created for the purposes of regional development planning and statistical analysis, providing wider coverage than the district or local levels. The creation of planning regions is often accompanied by the setting of coordination mechanisms to promote the participation of lower administrative tiers in the identification of regional development priorities. For example, in Hungary, Regional Development Councils at the planning region level may include representatives of counties or municipalities in their membership.

- Deconcentrated Units: In many NMS, recent reforms have bolstered the role of the regional level in policy-making by delegating competences downwards from the centre. These new "deconcentrated" institutions often serve to coordinate regional policy plans emerging from the local level with national strategies. For instance, at the regional level in Hungary, decentralised state administrations, subordinate to higher administrative levels, exercise their powers independently of the county and municipal authorities. In Lithuania, sub-national levels are administrative units of the central state. Districts have the main responsibility for carrying out regional policy and the task of achieving balance between national and local interests rests with the District Governor.

- Associations of Municipalities: Recent reforms have bolstered the role of the regional level by aggregating power upwards from traditionally strong locally-elected representatives. For example, in the Baltic States, local level county and district authorities are increasingly involved in regional policy delivery through cooperative mechanisms. In Latvia, legislation has strengthened local

autonomy and encouraged local governments to improve cooperation with neighbouring territorial units. New institutions, based on the upward aggregation of local power, have created a platform for the distribution of funding and an intermediate planning tier. Of the possible intervention levels of spatial development, the sub-regional level has become – through the bottom-up co-operation of local governments – an important element of regional policy.

- Self-governing Regions: In the Czech Republic, Poland and Slovakia, recent reforms have created self-governing regions. These have facilitated greater levels of local/regional level participation in regional policy implementation and development. For instance, in Poland, new regional self-governments are responsible for agreeing ‘contracts’ with the centre. On the basis of such agreements, they then develop and administer their own Regional Development Strategies and Programmes and Plans of Spatial Development (Regional Plans).

In summary, the last few years have witnessed a marked shift towards a more coherent and co-ordinated approach to regional policy based on more regional-level interventions, though the true extent of the regionalisation process remains unclear. Certainly, at the central level, efforts have been made to clarify and coordinate ministerial responsibilities for regional policy and provide the necessary institutional support for policy formulation and implementation. At the regional level, different approaches to organising regional-level participation in policy-making are apparent. In some countries, the regional tier is being institutionalised via the location of regional development tasks and agencies; in others, an operational level for deconcentrated state administrations has developed; and in a few, there are now self-governing units with elected bodies. On the other hand, the fact that regional development finance is very often centrally determined can undermine the development role of the regional level.

6.6 Assessment of Policy Changes

The last few years have witnessed a period of substantial regional policy reform in the NMS, which is in large part linked to the EU accession process. Reforms have significantly advanced the position and relative status of both regions and regional policy. However, post-enlargement, a number of important challenges and questions remain.

First, it will take time for the new institutions involved in regional policy to establish themselves and for regional policy networks to become embedded. In the NMS, there remains a need for the continued strengthening of coordination and partnership mechanisms. Progress in capacity building will help to improve regional policy implementation systems and increase absorption capacity of the NMS and their regions. In terms of capacity building, involvement in Structural Funds could have associated benefits for national regional policy practices. For instance, NMS national policies tend to be weak in terms of monitoring and evaluation provisions. In order to promote a more effective national policy, lessons could be drawn from the experience of the Structural Funds and EU pre-accession aid.

Second, for both EU regional policy and national regional policy, the problem of implementing a regional development policy in the context of national economies which themselves are underdeveloped relative to the EU, creates a tension between national prosperity and regional disparity. Consequently, debates about the appropriate balance between ‘equity’ and ‘efficiency’ have particular resonance. In

the context of accession to the EU, the most important problem is not the differences which exist between regions but the comparatively low economic potential of *all* regions. For instance, the objectives of Lithuanian national regional policy include support to the development of a market economy in each region, which implies assistance even to the most prosperous regions with the greatest development potential. The Czech "Principles of Regional Policy" state that the overall objective of regional policy should be to 'give an equal chance to all regions to allow them to make full use of their democratic, natural, economic and any other potential'. At the same time, regional disparities within many of the NMS remain severe, which implies the need for targeted government assistance. While the principle of encouraging regions *throughout* the country to develop their individual potential is logical given comparatively low levels of regional development generally, it seems certain that selectivity will continue to apply in practice, given resource constraints and the particularly underdeveloped state of peripheral regions.[31]

Third, in conditions where there are limitations to both national regional policy resources and the capacity to use those resources, involvement in EU programmes adds an additional level of complexity. EU co-financing commitments have the potential to divert scarce regional policy resources away from those national policy instruments which were established by national governments in response to local, regional and national pressures. In the future, it could be necessary to rationalise existing regional policy instruments in order to provide fewer, but more effective forms of support. Alternatively, reduced spending on distinct national regional policies could enable greater focus on the provision of Structural Funds co-financing. For instance, the task of national regional policy could be simply to eliminate current constraints on the provision of support from the Structural Funds, by providing matching grants. Poorer regions are often faced with difficulties in identifying sufficient financial resources to co-finance eligible projects. In such situations, national regional policy might provide, for example, a higher percentage of project co-finance in the most needy regions to allow local beneficiaries to draw support from the Structural Funds.[32]

Finally, in the longer term, one of the big challenges facing the new Member States is implementing a gradual switch from 'low-road' to 'high-road' strategies of competitiveness. In this context, the current policy emphasis with respect to inward investment is on traditional regional incentives. Over time, there will have to be a move, first, to after care programmes aimed at maximising the positive effects of existing foreign investments and, thereafter, to improving the economic structure to favour sectors with higher added value and with more sophisticated production requiring high-quality human capital.

[31] Bachtler, J. and Downes, R. (2001) *Benchmarking Regional Policy in Europe: Patterns, Trends and Issues* Report to international conference 'Benchmarking Regional Policy in Europe', Forest Hills Hotel, Loch Ard, 9-12 September 2001.

[32] Blažek, J. (2001) Regional Development and Regional Policy in the Czech Republic: An Outline of the EU Enlargement Impacts. *Informationen zur Raumentwicklung Heft 11 p. 764*