

# EPRC

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## Preface

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

### **Austria**

- Bundeskanzleramt (Federal Chancellery), Vienna

### **Finland**

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

### **France**

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

### **Germany**

- Bundesministerium für Wirtschaft und Technologie (Federal Ministry for the Economy and Technology), Berlin
- Ministerium für Wirtschaft, Bau und Tourismus, Mecklenburg-Vorpommern (Ministry for the Economy, Construction and Tourism, Mecklenburg-Western Pomerania), Schwerin

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### **Switzerland**

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

### **United Kingdom**

- Department for Business, Innovation and Skills, London
- The Scottish Government, Enterprise, Transport and Lifelong Learning Department, Glasgow

The research for the country reviews was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2013. The EoRPA research programme is coordinated by Professor John Bachtler, Fiona Wishlade, Dr Sara Davies and Stefan Kah.

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### Disclaimer

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

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## **Executive Summary**

### **Introduction**

The aim of this report is to review recent changes in domestic regional policies across Europe, focusing on policy change over the 2012-13 period. The report has three main sections covering: an analysis of regional economic problems and trends in Europe over different timescales; typologies for understanding the different regional policy responses; and a review of recent changes to regional policies across 30 countries.

The report is based on research in individual European countries and presented in a series of country reports that have been provided separately (see EoRPA Paper 13/2). The paper is supported by a series of comparative tables that summarise the main regional policy instruments (see EoRPA Paper 13/3).

### **Regional economic development in Europe: structural and short-term challenges**

The context for regional development in Europe in the past five years has been turbulent, with many countries facing significant reductions in national GDP and employment, as well as worsening public finances, in the context of the crisis/downturn. By 2012-13, however, there is variation across countries, with some showing positive developments in terms of growth and employment, while others continue to experience serious economic difficulties. Moreover, the outlook remains uncertain, with recent unemployment data suggesting that the economic situation is worsening in some countries.

The impact of the crisis/downturn on regional disparities in 2008-12 has been limited in many countries as effects have been spread across all regions. However, some countries have seen relatively strong shifts in the dispersion of regional GDP per capita, regional unemployment rates and/or regional household disposable income per capita. Where regional disparities have narrowed, this often reflects a deterioration in the economic situation of leading regions, rather than catching-up on the part of lagging regions.

It remains to be seen whether the crisis/downturn is changing the structural conditions for regional development, for example by accelerating the restructuring of particular industries that are concentrated in specific places, by stimulating agglomeration or spread effects, or by inducing shifts in policy goals, budgets and instruments. Debates continue over the policy responses and macroeconomic frameworks needed, notably the balance between promoting growth and reducing public indebtedness. From a regional development perspective, there are concerns that reductions in public spending and public employment could have a long-term effect in structurally weaker regions, where business sector activity may be more limited or focused on lower skill/wage market segments.

In addition, a number of secular shifts are shaping the long-term context for European regional development. First, developed economies have yet to adapt to the implications of climate change and constraints on the availability of non-renewable natural resources. Second, coming years are likely to see further economic rebalancing between countries, as income levels in Asia and possibly other parts of the world rise, bringing benefits and challenges for European businesses. Third, many European countries are affected by demographic shifts, driven by population ageing, out-migration and/or immigration, with have varying effects on public finances and interpersonal inequalities.

This chapter presents two sets of typologies which illustrate commonalities and differences between countries and groups of countries. The first typology focuses on the structural economic development challenges facing European countries and regions, while the second typology concentrates on the effects of the financial and economic crisis and downturn/recovery on national and regional development in Europe. Both typologies draw on composite indicators built on a range of sub-indicators relating to national development and regional economic dispersion.

A comparison of the two sets of typologies shows only limited consistency in terms of the ranking of countries i.e. it is not evident that economically stronger (weaker) countries have been more or less affected by the crisis. However, a small number of countries perform well in national and regional terms both structurally and in terms of limited change during the crisis/downturn, while others perform poorly on both sets of national indicators and also show low or falling regional dispersion.

### **Regional policies in Europe: typologies of policy responses**

Identifying typologies is made complex by the absence of any shared understanding of what regional policy actually is, though a working definition might be 'policies to address spatial economic disadvantages'. There are several dimensions to the ways in which regional policies cluster:

**Who drives policy?** Historically, regional policy has tended to be primarily a national government function other than in federal states, but in the last two decades patterns have shifted to reveal a much wider spectrum of experiences and five main domestic models can be identified:

- Policy is essentially national with no significant subnational component
- Policy is predominantly national but with significant subnational coordination mechanisms
- Responsibility is shared between national and subnational levels
- Policy is predominantly subnational but with important coordination mechanisms
- Policy is predominantly subnational with no significant national role

Regional policy in most European countries is not driven by domestic considerations alone; EU cohesion policy also plays a part, but its role varies in intensity between countries, as reflected in four main typologies of Cohesion policy influence:

- Dominant: the Cohesion policy agenda largely funds and determines policy
- Important: Cohesion policy funding is significant, but the agenda is domestic
- Complementary: Cohesion policy funding is modest, and the agenda is domestic
- Marginal: Cohesion funding is small or non-existent and the agenda is domestic

**What are the objectives of regional policy?** The regional policies of many countries involve a mix of equity and efficiency objectives, with different policy elements and interventions addressing different aims. In large measure the four-way classification of objectives that emerges reflects the extent and nature of internal disparities and levels of national prosperity:

- Reduction of regional disparities
- Regional competitiveness and reduction of disparities pursued in tandem
- Regional competitiveness to maintain / improve national competitiveness predominates
- Nationwide approaches to achieve national competitiveness predominate

**What is the spatial focus of regional policy?** The spatial focus of regional policy is its distinguishing feature – implicit in the notion of regional policy is some geographical dimension. For EU countries this is to some extent conditioned by EU Cohesion policy and the competition rules on State aid, which determine the scope and shape of the assisted area maps. The interaction of these factors, as relevant, with domestic considerations, varies between countries with three main approaches to spatial targeting:

- A policy focus on extensive assisted areas or macro regions
- Sub-regional spatial targeting focused on specific, sometimes differentiated area types
- No significant spatial targeting, but modest spatially-differentiated measures may be used

**What are the instruments of regional policy?** The instruments of regional policy have undergone a profound change in the last two decades with a decline in the use of regional incentives to firms, location controls and public sector investment targeted at specific regions in favour of all-region strategies and programmes with a strong emphasis on coordination between tiers of government and agencies, a proliferation of smaller initiatives and ‘softer’ measures. No national typology can neatly encapsulate the range of instruments since most countries typically operate a range of measures of different scales and at different tiers of government.

**What is the scale of regional policy?** The growing diversity and complexity of regional policy instruments - as well as the absence of a common understanding of what regional policy is - also presents challenges in assessing spending. There are few sources of comparative information on expenditure and these are far from comprehensive. Nevertheless, it is clear that there are significant differences between countries in the amounts spend on regional aid, ranging from over 0.7 percent of GDP to no spend at all. Levels of Cohesion policy funding also vary very widely between countries; perhaps more important, however, is the variation in the national cofinancing commitment. The very high levels of commitment for many EU12 countries explain why these countries have little or no domestic policy response to regional disparities.

### **Regional policy reassessed: recent developments in regional policies in Europe**

Regional policy in Europe is going through a dynamic period of change, with extensive analysis and review of policy objectives and governance. Key drivers are preparations for the new 2014-20 programme period under EU Cohesion policy and EU regional aid guidelines, and the emergence of new regional development challenges and public funding constraints in the context of the crisis and downturn. The conceptual basis of regional policy is currently being reassessed and concerns with efficiency and effectiveness are prominent, with questions being asked about whether and how governments should respond to uneven territorial development. Where domestic strategic reviews of regional policy are underway, a key focus is the rebalancing of competitiveness/equity objectives.

While the institutional frameworks of regional policy are stable in a number of countries, elsewhere the governance and management of regional policy has evolved significantly. A key issue concerns policy coordination, whether in terms of a stronger role for central authorities in coordinating regional policy, the need to find a balance between decentralisation/regionalisation and central coordination, or managing interactions between regional policy and various sectoral policies. Further institutional changes relate to shifts at sub-national levels, notably the merger of municipalities with the aim of creating larger, more efficient units with more capacity for equitable service provision.



The role of evaluation in improving the efficiency of regional policy is taking on increased importance in the context of the crisis. The need to assess and improve the performance of policy instruments and programmes is accentuated where the regional challenge is growing and where policy funding is constrained (. In Central and Eastern Europe, efforts are also underway to strengthen the role and capacity of evaluation systems. This is driven by Cohesion policy evaluation requirements although there are moves to extend the role to other domestic policies.

Public expenditure constraints have had a significant impact on regional policy budgets across Europe. In many cases, regional policy funding has been reduced substantially as part of broader cuts in public expenditure. However, regional policy budgets have remained stable or even increased, as a result of improving economic conditions, in a minority of countries. Regional policy budgets have also remained stable where funding for instruments is guaranteed or 'ring-fenced' in multi-annual programming arrangements, contracts or agreements. The role of Cohesion policy in funding regional policy is accentuated as a result of the crisis. In EU12 Member States, Cohesion policy remains a crucial and in many cases dominant source of stable, medium-term funding for regional development, although domestic funding for regional policy has largely been reoriented to cofinancing Cohesion policy in these countries.

Traditional regional aid instruments have been under review for some time, although most countries continue to implement schemes under the EU regional aid guidelines and are evaluated positively. A number of long-standing national regional policy aid schemes have been closed in recent years, and the future use of specific aid schemes is being debated in several cases, partly due to budget cuts. However, a number of new aid schemes have also been launched over the past year in response to the impact of the economic crisis/downturn on particular locations. At the same time, the crisis has led to lower uptake and delivery of regional aid due to liquidity problems, sometimes with a detrimental impact on the overall effectiveness of aid measures. Other challenges relate to a lack in capacity in targeted areas. Those countries which have seen a decrease in the role of traditional regional aid a number of years ago have introduced other approaches to business support. Alternatives being implemented or debated include: regulatory reform and investments in research and development activities; measures promoting the business environment; fiscal equalisation, and strategies supporting inward investors and indigenous companies.

This overview of recent changes to regional policies in Europe has identified a range of issues that are on the current agenda of regional policymakers. Key questions for discussion at the EoRPA meeting include the following:

- In a period of constrained public finances, how can governments respond effectively to uneven territorial development? What are the implications for the design and delivery of regional policy (e.g. in terms of objectives, geographical focus, institutional management and instruments)?
- Regional aid instruments have been under particular pressure in some countries. To what extent is there still a role for nationwide regional grants, and how can value for money best be ensured?
- With renewed interest in improving the effectiveness of coordination, how can both horizontal coordination (notably the commitment of sectoral ministries to regional development strategies) and vertical coordination (between central government and sub-national levels) be improved? What works?

## 1. INTRODUCTION

The effects of the financial and economic crises continue to cast a long shadow over many European countries, with several countries still stuck in a deep recession and anaemic growth in many more. The economic and social costs are evident primarily in very high levels of youth unemployment and poverty being experienced by those countries like Greece, Cyprus, Spain and Ireland, but also the wider labour market effects across Europe. This has intensified longer standing structural concerns of many European countries related to global competitiveness in terms of growth, innovation, productivity and employability.

A key question is whether the crisis/downturn is changing the structural conditions for regional development, for example by accelerating the restructuring of particular industries that are concentrated in specific places, by stimulating agglomeration or spread effects, or by inducing shifts in policy goals, budgets and instruments. Debates continue over the appropriate policy response to the crisis – not least the appropriate balance between promoting growth and reducing public indebtedness – as well as the macroeconomic frameworks and policy approaches needed for effective policy-making, particularly within the Euro area. From a regional development perspective, there are concerns that reductions in public spending and employment could have a significant long-term effect in structurally weaker regions, where business sector activity may be more limited or focused on lower skill/wage market segments.

These issues are explored in this report, which aims to provide an overview of changes in regional development policies across Europe. It comprises a comprehensive and comparative review of how the challenges for regional development policy are evolving, and the changing policy response – in terms of objectives, instruments and administration. The intention is to give regional policy-makers a clear picture of the current state-of play and recent developments with respect to regional development policies, the rationale for policy trends, and how individual countries fit within the broader picture.

This type of regional policy report is produced each year under the EoRPA research programme, and the current review is the 34<sup>th</sup> annual report to be produced since EoRPA was founded in 1978-79. It builds on previous such reports, most notably those produced in 2011 and 2012.<sup>1</sup>

This report focuses mainly on policy changes over the 2012-13 period, highlighting the key developments taking place and the main factors underpinning change. The report is based on detailed research on the regional policies of 30 individual European countries (including Croatia this year for the first time)<sup>2</sup> and is supported by a series of standard comparative tables, as part of each chapter, highlighting recent policy developments on a country-by-country basis; these tables are also

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<sup>1</sup> J. Bachtler, D. Charles, M. Ferry, F. Gross, S. Kah and L. Polverari (2011) Regional Policy in Europe: Divergent Trajectories? Annual Review of Regional Policy in Europe, *EoRPA Paper 11/1*, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow, October 2011. S. Davies, J. Bachtler and F. Wishlade, with F. Gross and S. Kah (2012) Rethinking Regional Policy at National and European Levels: Short-Term Pressures and Long-Term Challenges: Annual Review of Regional Policy in Europe, *EoRPA Paper 12/1*, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow, September 2012.

<sup>2</sup> The research has covered the EU28 plus Norway and Switzerland. See: S. Davies and S. Kah (Eds.) Regional Policy Developments in Europe: Country Reviews 2012-13, *EoRPA Paper 13/2*, European Policies Research Centre, University of Strathclyde, Glasgow, September 2012.

available as a separate document, providing a quick summary of how individual aspects of policy are evolving in each country.<sup>3</sup>

It should be noted that, in order to improve the readability of the report, the detail on the regional policies of individual countries is relatively brief. The focus is on presenting an overall picture of the commonalities and contrasts among countries, as well as development trends in regional policies across Europe. Readers are strongly encouraged to refer to the individual country reviews, cited in this report and above for more explanatory information.

The paper is in three further sections. Chapter 2 begins with a review of the key issues shaping regional economic development in European countries. It focuses first on the longer-term structural economic development challenges facing European countries and regions, and then discusses the effects of the financial and economic crisis and downturn/recovery on national and regional development in Europe. The chapter draws on composite indicators built on a range of sub-indicators relating to national development and regional economic dispersion (with annexes providing detailed data).

Chapter 3 then turns to the policy responses of European countries. It identifies some of the key commonalities and contrasts in 'regional policies' in Europe, focusing on the questions: Who drives regional policy? What are the objectives of regional policy? Where is the spatial focus of policy? What are the instruments of policy? And what is the scale of policy?

Lastly, Chapter 4 provides a synthesis of the changes to regional policy over the 2012-13 period, focusing first on the implications for regional policy of government changes over the past year or so and then discusses the developments with respect to policy objectives, institutional frameworks, spatial coverage, nationwide regional policy frameworks and the instruments of regional policy. The final section draws together the main points to emerge from the chapter and identifies some questions as a starting point for discussion at the EoRPA meeting.

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<sup>3</sup> See: F. Gross (2013) Regional Policy Developments in Europe: Comparative Tables 2012-13, *EoRPA Paper 13/3*, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

## **2. REGIONAL ECONOMIC DEVELOPMENT IN EUROPE: STRUCTURAL AND SHORT-TERM CHALLENGES**

### **2.1 Introduction**

The context for regional development in Europe in the past five years has been turbulent, with many countries facing significant reductions in national GDP and employment, as well as worsening public finances, in the context of the financial crisis and on-going economic downturn. By 2012-13, however, there is considerable variation across countries, with some showing positive developments in terms of real GDP and labour market indicators, while others continue to experience serious economic difficulties. Moreover, the outlook remains uncertain, with recent unemployment data suggesting that the economic situation is worsening in some countries.

This chapter provides a short review and reminder of the key issues shaping regional economic development in European countries. A key focus is to develop two sets of typologies, with the aim of providing a basis for discussion of commonalities and differences between countries and groups of countries. The first typology focuses on the longer-term structural economic development challenges facing European countries and regions, while the second typology concentrates on the effects of the financial and economic crisis and downturn/recovery on national and regional development in Europe. Both typologies draw on composite indicators built on a range of sub-indicators relating to national development and regional economic dispersion.

The development of such typologies, however, depends on the quality of comparable data across countries which can be problematical at a regional level. A particular difficulty is the limited availability of data at NUTS 3 level, as Eurostat does not publish data on employment rates, unemployment rates or household disposable income per capita at this geographical level. While data on more indicators are available at NUTS 2 level, this does not allow for a sufficiently fine-grained analysis, and also has the effect of excluding smaller countries from the analysis. A further data issue relates to the indicators used to measure the scale of regional disparities. This chapter uses population-weighted coefficients of variation which have the effect of allowing regions with larger populations have a stronger influence on the outcome, in comparison with non-weighted indicators which treat each region as if it were of equal size. Last, there are serious issues relating to regional data availability, particularly for longer time series, which limits the analysis of structural challenges. There are also more serious data gaps for some countries (especially Italy and Switzerland) which means that they cannot be included in some sections.

This chapter begins with a brief overview of different theoretical explanations of regional economic disparities and their persistence, as well as analyses of the regional effects of the financial and economic crisis and subsequent downturn and partial recovery. It then examines structural economic development challenges in Europe at both national and regional levels, based on composite indicators, and also presents a typology of countries, based on the scale of national and regional developmental difficulties. The final section of the chapter reviews the impact of the financial crisis and downturn/recovery on national and regional development in Europe, and develops a typology of countries that draws on data on changes in national and regional indicators in 2008-12. Additional tables and figures can be found in Annex 1.

## 2.2 Drivers of regional economic disparities

### 2.2.1 Theoretical explanations of regional economic variety

There are a range of different theoretical approaches to the analysis and explanation of regional economic disparities, drawing on different disciplinary traditions, notably in various strands of economics and economic geography.

First, from a traditional neoclassical economics perspective, regional disparities should not persist in the long-run because, as the amount of capital per worker rises, diminishing marginal returns to capital in richer regions will generate incentives for businesses to invest in peripheral/poorer regions where wages and other costs are lower.<sup>4</sup> Long-standing regional disparities are thus seen as the result of distortions introduced by policies or institutional frameworks, which reduce these incentives, such as centralised wage bargaining systems or welfare payments.

Second, and still largely within the neoclassical framework, regional disparities may be viewed as temporary effects that typify catching-up economies undergoing significant structural and sectoral change which has a geographical dimension.<sup>5</sup> New activities are seen as likely to develop first in the main agglomerations, with the largest labour and consumer markets, and to take time to spread to other regions. Policies and institutional frameworks are seen as endogenous, in the sense that public investment may either prioritise support for economic activities in the main agglomerations or instead the diffusion of sectoral change, via funding for interregional transport and communications links.

Third, various strands draw on the concept of agglomeration economies, whereby co-location is seen to bring various economic benefits to firms.<sup>6</sup> New economic geographers analyse the effects on the regional distribution of economic activity of different assumptions relating to market size and trade costs, plus input-output linkages, labour pooling and knowledge spillovers.<sup>7</sup> Related studies focus on urban/suburbanisation issues, as well as on the implications of policy failures to internalise negative agglomeration externalities (e.g. congestion and pollution), thus hindering the diffusion of economic activities. New endogenous growth theorists instead focus on the idea that human and knowledge capital may be characterised by increasing returns, so that there is a permanent and cumulative incentives for firms to co-locate, rather than a tendency for spread effects to dominate over time.<sup>8</sup>

Fourth, geographers emphasise a broader and more complex range of economic, social, political, institutional and business dimensions, often drawing on the idea of cumulative causation, where developments in one region have a range of positive (spread) and negative (backwash) effects on other regions. These effects are seen as cumulative, circular and self-reinforcing.<sup>9</sup> Thus growth in one region has the (backwash) effects of attracting in capital, skilled labour and more sophisticated forms of production from other regions, but may also have the (spread) effects of increasing demand for the products of other regions, thus facilitating their economic development.

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<sup>4</sup> R Solow (1956) 'A contribution to the theory of economic growth', *Quarterly Journal of Economics* 70: 65-94.

<sup>5</sup> J Williamson (1965) 'Regional inequality and the process of national development: a description of the patterns', *Economic Development and Cultural Change* 13: 3-45.

<sup>6</sup> A Marshall (1920): *Principles of Economics*, London: MacMillan.

<sup>7</sup> M Fujita, P Krugman and A Venables (2001) *The Spatial Economy*, Cambridge MA: MIT Press.

<sup>8</sup> P Romer (1986) 'Increasing returns and long-run growth', *The Journal of Political Economy* 94: 1002-37; R Lucas (1988) 'On the mechanisms of economic development', *Journal of Monetary Economics* 22: 3-42.

<sup>9</sup> G Myrdal (1957) *Economic Theory and Underdeveloped Regions*, London: Duckworth.

### **2.2.2 Crisis, downturn and recovery**

Studies of the regional impact of the crisis/downturn have to date mainly focused on the immediate effects on key economic (especially labour market) indicators<sup>10</sup> and on particular regions, countries and industries.<sup>11</sup> However, many countries and regions are continuing to see the unwinding of the effects of the crisis, notably where there were pre-crisis property bubbles, or where serious concerns have emerged over banking sector stability or public sector indebtedness. In this context, a key question is whether the crisis/downturn is changing the structural conditions for regional development, for example by accelerating the restructuring of particular industries that are concentrated in specific places, by stimulating agglomeration or spread effects (e.g. if core cities are more or less affected by the crisis), or by inducing shifts in policy goals, budgets and instruments.

Debates continue over the policy response to the crisis/downturn - notably the appropriate balance between promoting growth and reducing public indebtedness – as well as the macroeconomic frameworks and policy approaches needed for effective policy-making, particularly within the Euro area. From a regional development perspective, there are concerns that reductions in public spending and public employment could have a significant long-term effect in structurally weaker regions, where business sector activity may be more limited or focused on lower skill/wage market segments.<sup>12</sup>

### **2.2.3 A shifting context for regional development**

In addition to macroeconomic changes linked to the crisis/downturn, a number of other secular shifts are shaping the long-term context for European regional development. First, developed economies and societies have yet to adapt to the implications of climate change and constraints on the availability of non-renewable natural resources,<sup>13</sup> while technological and social innovation may assist the adaptation process, serious questions remain over current approaches to production and consumption. Second, coming years are likely to see further economic rebalancing between countries, as income levels in Asia and possibly other parts of the world rise. Although these changes could increase European export markets and reduce the prices of goods/services for European consumers, they may also increase competition for certain European producers.<sup>14</sup> Third, many European countries are affected by demographic shifts (see Table A1 and Figure A1 in Annex 1), driven by one or more of the following factors: population ageing, out-migration and/or immigration. These shifts have varying effects on public finances and interpersonal inequalities, possibly with a regional dimension.<sup>15</sup>

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<sup>10</sup> S Davies (2011) Regional resilience in the 2008–2010 downturn: comparative evidence from European countries, *Cambridge Journal of Regions, Economy and Society* 4: 369–382; M Kitson, R Martin, and P Tyler (2011) The geographies of austerity, *Cambridge Journal of Regions, Economy and Society* 4: 289–302.

<sup>11</sup> J Blažek and P Netrdová (2012) Regional unemployment impacts of the global financial crisis in the new member states of the EU in Central and Eastern Europe, *European Urban and Regional Studies* 19(1): 42–61. G Gorzelak and C Goh (Eds) (2010) *Financial Crisis in Central and Eastern Europe: From Similarity to Diversity*, Warsaw: Wydawnictwo Naukowe Scholar.

<sup>12</sup> OECD (2013) *Economic Survey United Kingdom*, Paris: OECD.

<sup>13</sup> A Kelemen, W Munch, H Poelman, Z Gáková, L Dijkstra and B Torighelli (2009) *The Climate Change Challenge for European Regions*, Report for the European Commission, Brussels.

<sup>14</sup> H. Yeung (2009) Regional development and the competitive dynamics of global production networks: an east Asian perspective, *Regional Studies* 43(3): 325–51.

<sup>15</sup> G Fésüs, A Rillaers, H Poelman and Z Gáková (2008) *Demographic Challenges for European Regions*, report for the European Commission, Brussels, November 2008.

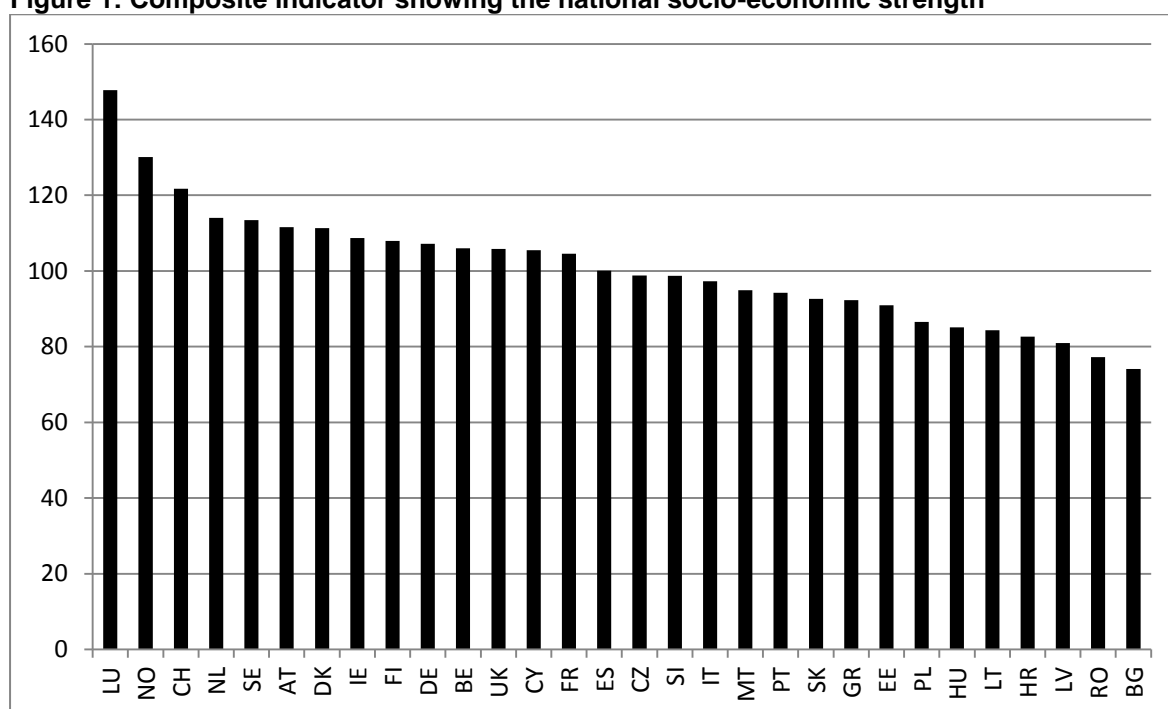
## 2.3 Structural economic development challenges in Europe

### 2.3.1 Structural situation at national level

The scale and type of structural or long-term socio-economic challenges vary across groups of European countries. Figure 1 shows countries' scores, relative to the EU average, for a composite indicator (see Table A1 in Annex 1) based on:

- Average GDP per capita (PPS) in 2008-12;
- The average employment rate in 2008-12;
- The average percentage of the population not at risk of poverty / social exclusion in 2007-11;
- The percentage change in population in 2002-12.

**Figure 1: Composite indicator showing the national socio-economic strength**



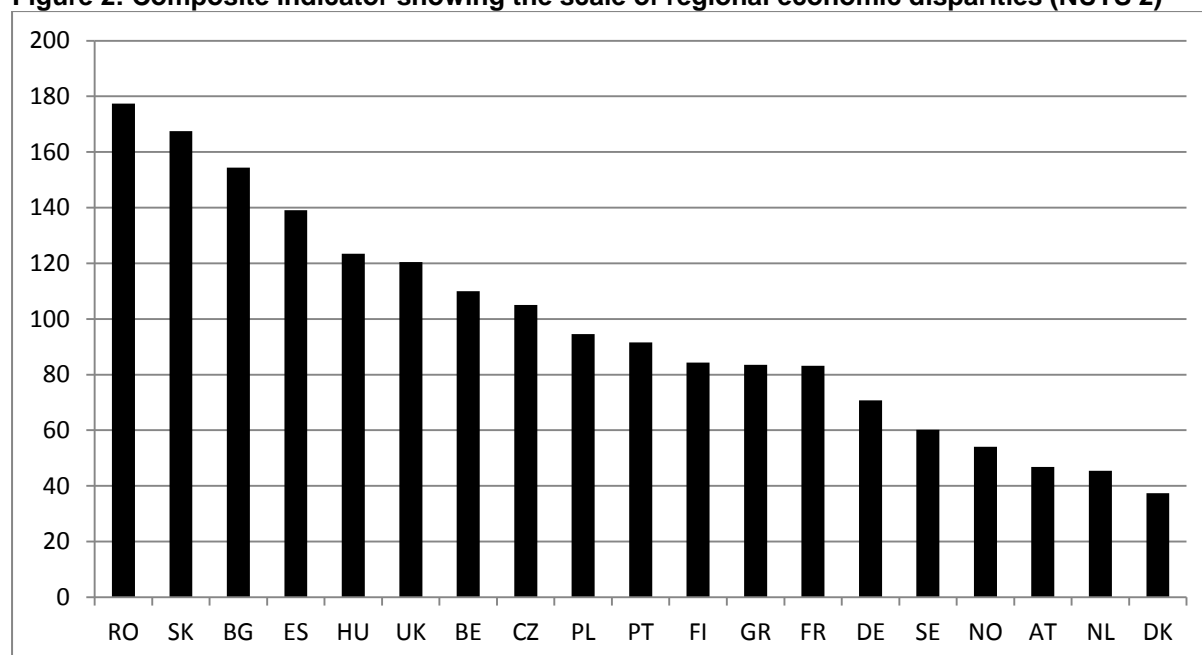
**Note:** The indicator shows a sum each country's score, relative to the EU average, for the indicators listed above.  
**Source:** EPRC calculations based on Eurostat and Ameco data.

### 2.3.2 Structural situation at regional level

Similarly, Figure 2 provides an overview of variations in regional socio-economic disparities, with all data at NUTS 2 level and shown relative to the EU average (see also Table A2 in Annex 1). Figure 2 draws on the following indicators to build a composite indicator:

- GDP per capita, average regional dispersion in 2008-10;
- Employment rate, average regional dispersion in 2009-12; and
- Household disposable income per capita, average regional dispersion in 2008-10.

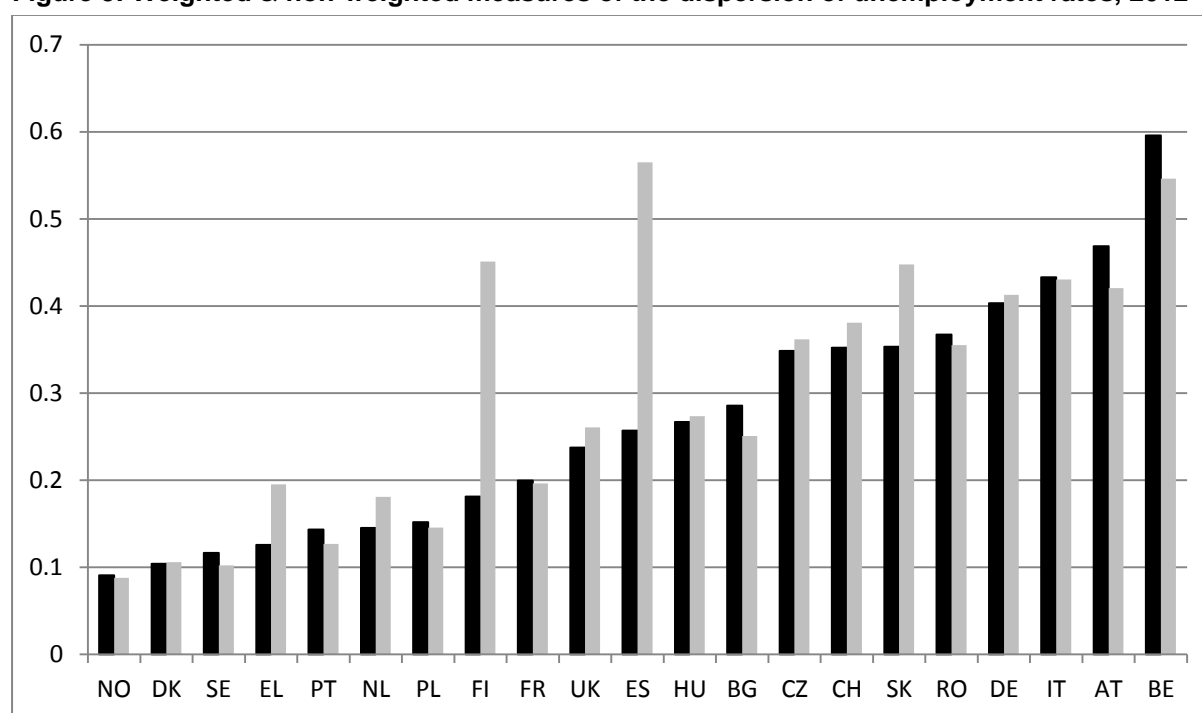
NUTS 2 data are used because Eurostat does not publish labour market or household disposable income data at NUTS 3 level. Figure A2 in Annex 1 shows the situation at NUTS 3 level, using GDP per capita data only, which covers more countries than does Figure 2.

**Figure 2: Composite indicator showing the scale of regional economic disparities (NUTS 2)**

**Notes:** Italy and Switzerland are excluded because of insufficient data on GDP per capita and household disposable income per capita.

**Source:** EPRC calculations based on Eurostat data.

The composite indicator measures regional dispersion in terms of population-weighted coefficients of variation which means that regions with larger populations have a stronger influence than smaller regions, whereas non-population weighted data weights each region equally (see Figure 3).

**Figure 3: Weighted & non-weighted measures of the dispersion of unemployment rates, 2012**

**Source:** EPRC calculations based on Eurostat data.

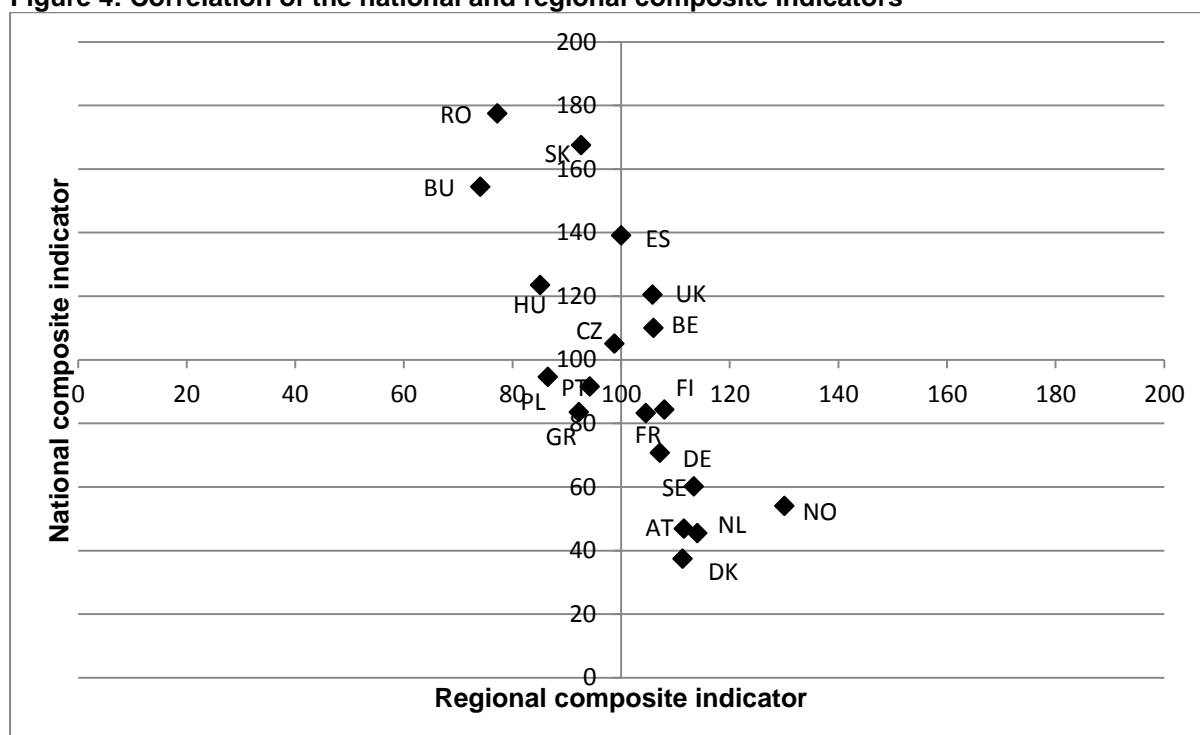
**Notes:** Population weighted coefficients of variation appear in black and non-weighted coefficients in grey.



### 2.3.3 Typology of national and regional structural development challenges

The relationship between national and regional economic development processes is complex and varies due, for example, to catching-up and agglomeration effects, as well as diverse institutional frameworks (see Section 2.2). This section presents a typology of countries, based on the two composite indicators of national development and regional economic disparities (Figures 1 and 2), and grouping countries, depending on whether they score above or below the EU average. Figure 4 shows the degree of correlation between the two indicators, and indicates that there is a relatively strong correlation between, on the one hand, high (low) levels of national income, employment and population change and, on the other hand, low (high) levels of regional disparities in income and employment in Europe. However, this correlation does not hold for all countries and varies in strength.

**Figure 4: Correlation of the national and regional composite indicators**



**Note:** The coefficient of determination (R-squared – which shows the percentage of change in one indicator which can be explained by changes in the other indicator) is 58.7 percent.

**Source:** EPRC calculations based on Eurostat data.

The data underlying this typology are set out in Tables A1 and A2 in Annex 1, also for countries where Eurostat regional data are limited (Italy and Switzerland) or where data are only available for GDP per capita at NUTS 3 level (Croatia, Estonia, Ireland, Latvia, Lithuania and Slovenia), or where only national data are available (Cyprus, Luxembourg and Malta).

Tables A1 and A2 also show that, in some countries, the degree of regional dispersion varies considerably between indicators. For example, Greece, Poland and Portugal have below-average dispersion for regional GDP per capita, employment rates and unemployment rates, but above-average dispersion for household disposable income per capita – while Belgium and Hungary show exactly the reverse pattern. The United Kingdom has below-average regional dispersion for employment and unemployment rates but above-average dispersion for GDP per capita and

household disposable income per capita. Austria and Germany show below-average dispersion for all indicators except unemployment rates.

Based on the two composite indicators, countries can be grouped together as follows, based on whether they score above or below the EU average:

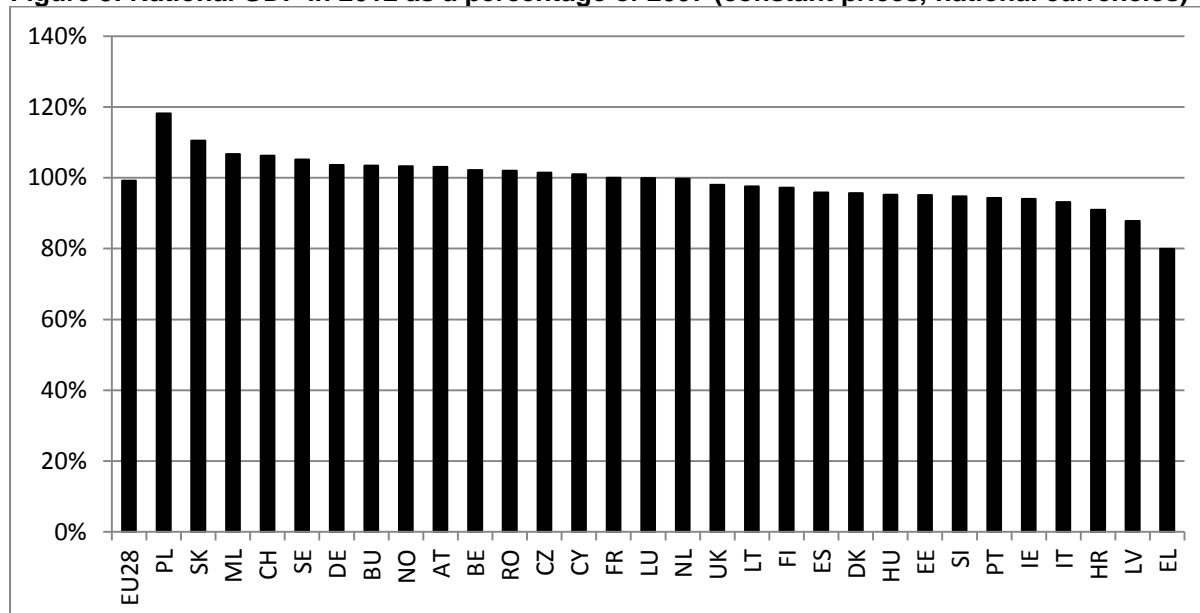
- Countries that perform better than the EU average on the national indicator and show below-average regional dispersion (Austria, Denmark, Finland, France, Germany, the Netherlands, Norway and Sweden), possibly with a sub-group of countries with below-average population density (Austria, Finland, Norway and Sweden);
- Countries that perform better than the EU average on the national indicator and show above-average regional dispersion (Belgium, Spain and the United Kingdom);
- Countries that score lower than the EU average on the national indicator and show below-average regional dispersion (Greece, Poland and Portugal);
- Countries that score poorly on (almost) all indicators (Bulgaria, the Czech Republic, Hungary, Romania and Slovakia).

## 2.4 The impact of the crisis, downturn and recovery

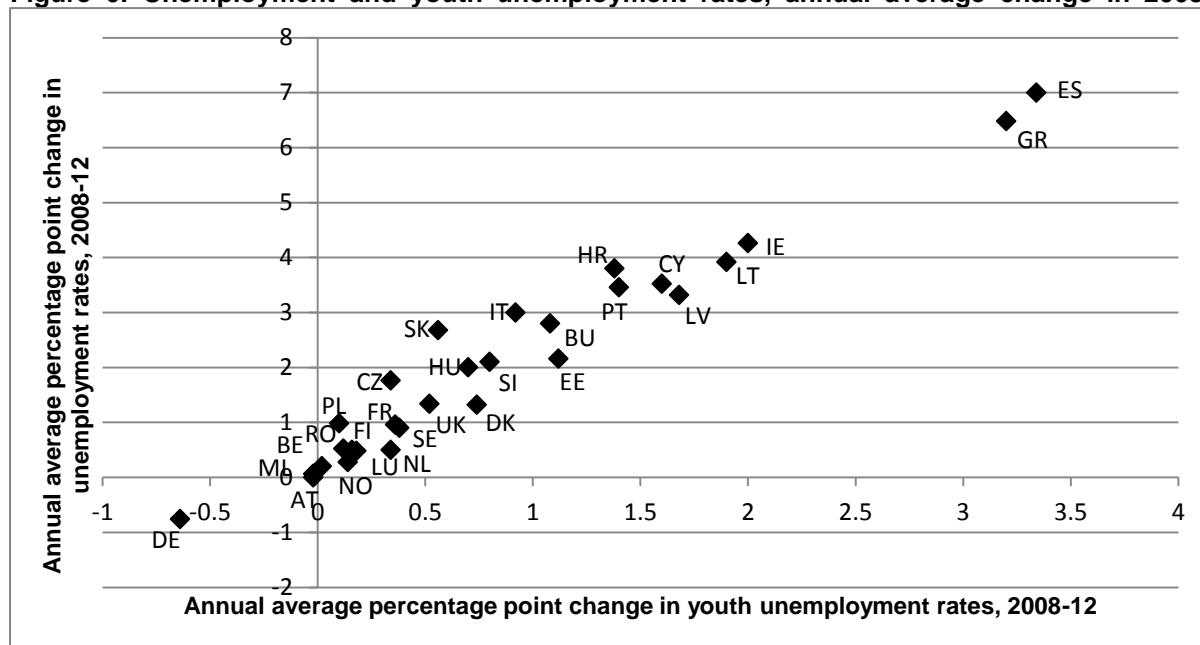
### 2.4.1 National impacts

The impact of the crisis, downturn and recovery has varied significantly across European countries, with some seeing a rebound in real GDP growth by 2012 but others continuing to see a lag below 2007 levels (see Figure 5). In the real economy, some of the most dramatic effects have been on the labour market, especially on youth unemployment rates (see Figure 6). Table A3 in Annex 1 provides further information on national changes in the real economy and public finances in 2008-12.

**Figure 5: National GDP in 2012 as a percentage of 2007 (constant prices, national currencies)**



**Source:** EPRC calculations based on Eurostat data.

**Figure 6: Unemployment and youth unemployment rates, annual average change in 2008-**

**Note:** The coefficient of determination (R-squared) is 94.9 percent.

**Source:** EPRC calculations based on Ameco and Eurostat data.

## 2.4.2 Regional impacts

The regional impact of the crisis/downturn varies considerably between countries and depends on which indicators and time series data are used. Table A4 in Annex 1 shows that annual average percentage point changes in dispersion were small in most countries in 2008-12. However, relatively strong increases were seen in the dispersion of regional GDP per capita in 2008-10 in Bulgaria, Croatia, Ireland, Romania and the United Kingdom, and relatively strong falls in Latvia and Lithuania. More countries saw strong changes in the dispersion of regional unemployment rates in 2008-12, with rises in Romania and Switzerland, and falls in, for example, Bulgaria, the Czech Republic, Hungary, Italy, Portugal and Slovakia (see Figure 7). The strongest changes in the dispersion of regional household disposable income per capita in 2008-10 were decreases in Hungary and Greece.

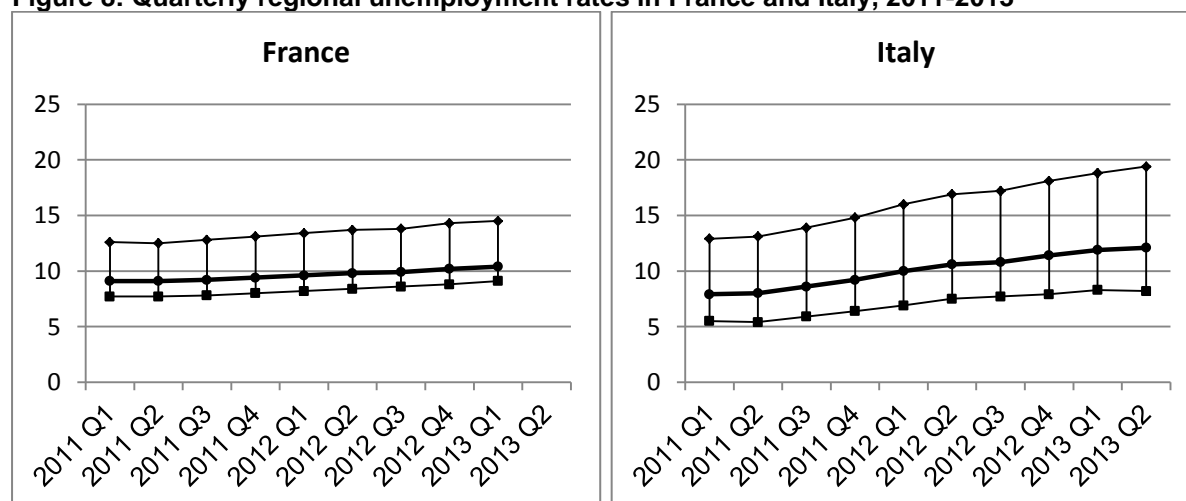
It is important to note that an increase in regional dispersion may reflect either or both a relatively stronger performance in more developed regions and/or a relatively weaker performance in less developed regions. Similarly, where regional disparities have narrowed in the crisis/downturn period, this often reflects a deterioration in the economic situation of leading regions, rather than catching-up on the part of the lagging regions.

**Figure 7: Changes in the dispersion of regional unemployment rates, NUTS 2, 2008-12**

**Notes:** Regional dispersion is shown in terms of population-weighted coefficients of variation.

**Source:** EPRC calculations based on Eurostat data.

Quarterly regional unemployment data for 2011-13 show that unemployment rates are rising in a number of European countries (including Austria, Finland, France, Italy, the Netherlands and Poland), raising concerns over a worsening economic situation. The picture is less clear in other countries (Norway, Sweden and the United Kingdom), while in Germany there are increases in unemployment rates in the stronger regions and at the national level but on-going falls in unemployment rates in structurally weaker regions in 2012-13. Figure 8 provides data for France and Italy, while Figure A3 in Annex 1 shows data for other selected European countries.

**Figure 8: Quarterly regional unemployment rates in France and Italy, 2011-2013**

**Source:** EPRC calculations based on national statistical office data.

**Notes:** 1. The unemployment data used are seasonally adjusted. 2. Data are for NUTS 2 regions. 3. The top line shows the region with the highest unemployment rate, while the bottom line shows the region with the lowest unemployment rate, and the middle line shows the national average.

### **2.4.3 Typology of the national and regional impact of the crisis/downturn**

Four sets of indicators of change have been used to develop a typology of responses to the crisis:

- National real economy indicators: the average percentage point change in GDP per capita, the employment rate, the unemployment rate and the youth unemployment rate in 2008-12;
- National public finance indicators: the level of gross public debt and the level of the net government deficit or surplus, both in 2012 and as a percentage of national GDP;
- NUTS 2 level indicators: the average percentage point change in the regional dispersion (population weighted coefficient of variation) of GDP per capita (2008-10), the employment rate (2008-12) and the unemployment rate (2008-12);
- NUTS 3 level indicators: the average percentage point change in the regional dispersion (population weighted coefficient of variation) of GDP per capita in 2008-10.

Based on these indicators, countries can be divided into four groups, based on whether they score above or below the EU average:

- Countries that have seen above-average developments at national level during the crisis and a below-average widening (or a narrowing) in regional disparities (Austria, Belgium, the Czech Republic, France, Germany, Norway and Sweden);
- Countries that seen above-average developments at national level during the crisis and an above-average widening in regional disparities (Denmark, Finland, the Netherlands, Poland, Romania, Slovakia and Switzerland);
- Countries that have seen below-average developments at national level during the crisis and a below-average widening (or a narrowing) in regional disparities (Bulgaria, Greece, Hungary, Italy, Portugal, Spain and the United Kingdom);
- Countries that have seen below-average developments at national level during the crisis and an above-average widening (or a narrowing) in regional disparities (Croatia, Estonia, Ireland, Latvia, Lithuania and Slovenia).

Limited data are available for some countries (including Italy, Estonia, Latvia, Lithuania, Slovenia, Switzerland, Croatia and Ireland) and this may introduce a greater degree of uncertainty in relation to the group to which these countries should be assigned (see Table A4 in Annex 1).

## **2.5 Summary**

Although all European countries have to varying degrees been affected by the financial crisis and economic downturn of the past five years, the situation in 2012-13 differs considerably across countries. Some show positive developments in terms of growth and employment, while others continue to experience serious economic difficulties. In many countries, the impact of the crisis/downturn on regional disparities has been limited as effects have been spread across all regions. However, some countries have seen relatively strong shifts in the dispersion of regional GDP per capita, regional unemployment rates and/or regional household disposable income per capita. Where regional disparities have narrowed, this often reflects a deterioration in the economic situation of leading regions, rather than catching-up on the part of lagging regions.

It remains to be seen whether the crisis/downturn is changing the structural conditions for regional development, for example by accelerating the restructuring of particular industries that are

concentrated in specific places, by stimulating agglomeration or spread effects, or by inducing shifts in policy goals, budgets and instruments. Debates continue over the policy responses and macroeconomic frameworks needed, notably the balance between promoting growth and reducing public indebtedness. From a regional development perspective, there are concerns that reductions in public spending and public employment could have a long-term effect in structurally weaker regions, where business sector activity may be more limited or focused on lower skill/wage market segments.

This two sets of typologies presented in this chapter illustrate the commonalities and differences between countries and groups of countries in terms of their structural economic situations, as well as in terms of the effects of the crisis and downturn/recovery on national and regional development. A comparison of the two sets of typologies shows only limited consistency in terms of the ranking of countries i.e. it is not evident that economically stronger (or weaker) countries have systematically been more or less affected by the crisis. A number of countries perform well in national and regional terms both structurally and in terms of relatively limited change during the crisis (Austria, France, Germany, Norway and Sweden). In addition, two countries perform poorly on national indicators and show low or falling regional dispersion (Greece and Portugal). There is no clear pattern in the case of other countries included in the analysis.



### 3. REGIONAL DEVELOPMENT IN EUROPE: TYPOLOGIES OF POLICY RESPONSES

#### 3.1 Introduction

In response to the diverse and dynamic territorial development challenges discussed in the previous chapter – and extensively in previous EoRPA annual reports – European governments have developed a range of policy responses. A major challenge in attempting to classify regional policy approaches across Europe is the absence of any unifying definition of what regional policy actually is. In contrast with other areas of public policy – education or defence policy, for example, there is no common understanding of the contours and content of policy – ‘regional policy’ means different things in different countries (and sometimes within them): regional policies are *sui generis* – defined by the context in which they operate. This makes the task of devising a typology of policies more complex than a comparative approach to, say, welfare policy where there is greater shared understanding of the scope of policy, even if the objectives and instruments differ.<sup>16</sup>

The aim of this chapter is to identify some of the key commonalities and contrasts in ‘regional policies’ in Europe. It draws on the detailed reviews of regional policy developments in each of the 30 countries conducted for this study and provides a basis for the review of regional policy developments in the next chapter. As a starting point, a working definition of regional policy for the purposes of this discussion might be policies ‘to address spatial economic disadvantages’. However, perceptions of whether a characteristic constitutes a disadvantage differ – in some countries depopulation may be accepted as a natural consequence of changes in the exploitation of natural resources (eg agriculture, mining), whereas in others it may be explicitly addressed as an objective of policy – so similar issues may or may not be treated as ‘problems’.

Identifying policy typologies is also made more complex by the multidimensional nature of regional policy. The context in which regional policy is applied varies markedly between countries, with implications for objectives. While a spatial component is implicit, the extent to which this discriminates between areas may be very limited or simply related to characteristics of an area rather than the perception of spatial disadvantage. Moreover, there may be significant horizontal components, particularly through support for infrastructure or RD&I which ultimately benefit the more prosperous areas, even if the implementation of policy is ostensibly neutral. On the other hand, significant transfers that benefit disadvantaged regions may be embedded in the fiscal system, but not explicitly recognised as an element of regional policy.

The institutional dimension also complicates matters. Even taking the loose working definition of ‘policies to address spatial economic disadvantage’ involves complexities of scale – disadvantaged in relation to what benchmarks (EU, national, other regional, infra-regional, local...) and on what basis (income, labour market, demography...). Moreover, the shifting paradigm of regional policy of the last two decades which has typically seen policy reoriented towards an all-region approach, often with significant subnational responsibilities and strong emphasis on coordination is in contrast with earlier policies that were typified by high profile measures of direct intervention involving not only major infrastructure and automatic financial incentives to firms, but also location controls for congested

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<sup>16</sup> Cf. G. Esping-Andersen (1990) *The Three Worlds of Welfare Capitalism*, Polity Press, Oxford.



areas, major relocation of public sector activities and nationalised industries and preferential public procurement schemes. For the most part, these measures have been downgraded or disappeared from the armouries available to regional policymakers.

Cohesion policy and its evolution also add a layer of complexity to discussions of regional policy in Europe. While in financial terms a strong emphasis is maintained on the weakest regions (albeit not as strong as it once was), spatial concentration has been considerably diluted from a focus on particular types of area (underdeveloped, restructuring and rural) to become available in *all* regions and with a strong orientation toward the Lisbon agenda.

Notwithstanding these challenges, it is useful to consider to what extent regional policies cluster into particular regime types – how far can policymakers make explicit policy choices, or are the options for regional policy conditioned by the nature of the economic geography, institutional arrangements and the impact of Cohesion policy? More specifically the remainder of this chapter addresses the following questions:

- Who drives regional policy?
- What objectives does regional policy have?
- Where is the spatial focus of policy?
- What are the instruments of policy?
- What is the scale of policy?

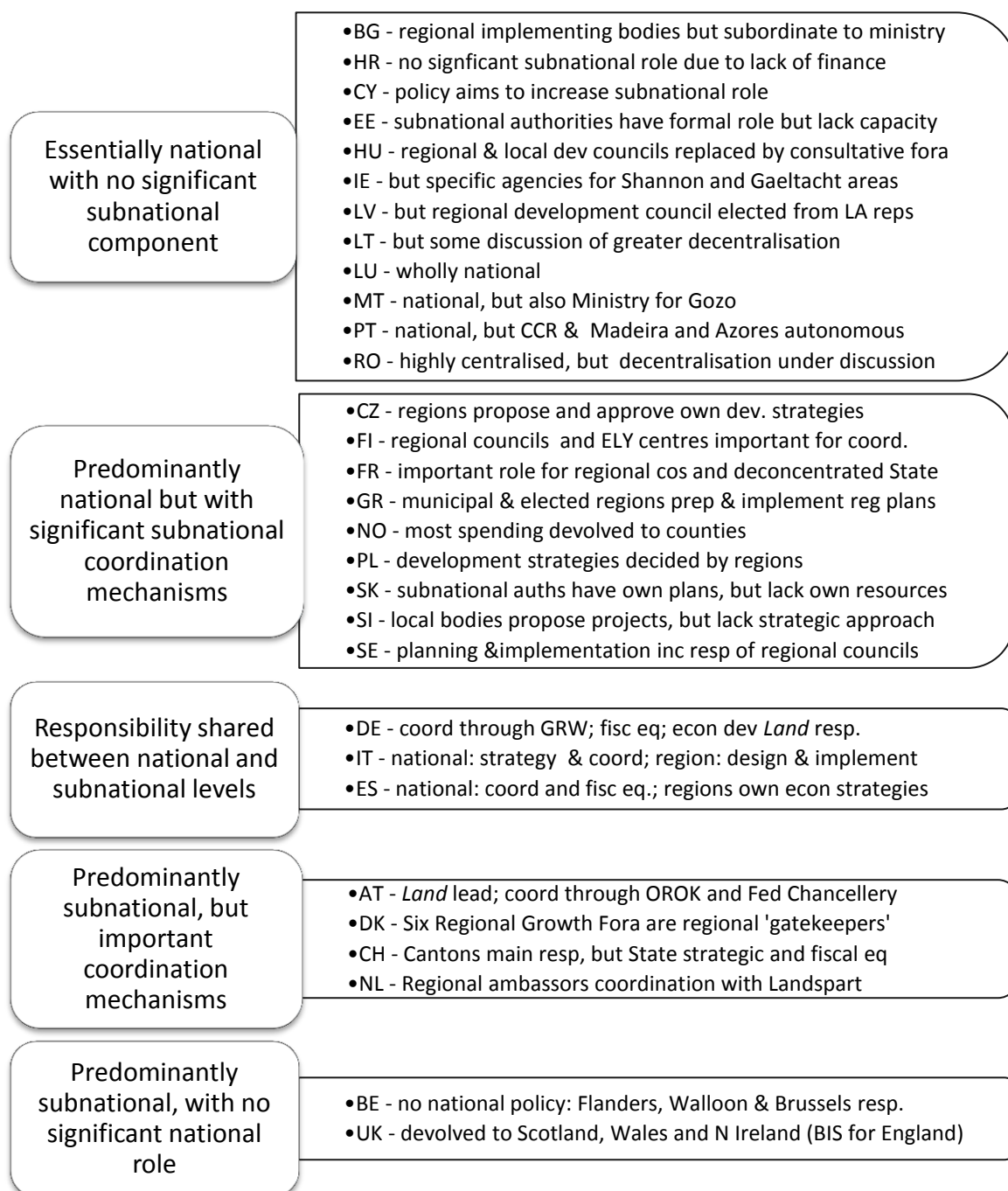
### 3.2 Who drives regional policy?

Historically, regional policy was essentially a central government function and tended to be implemented ‘top-down’. There were important exceptions to this – most notably in federal states like Belgium, Germany and Austria – but in most of northern and western Europe, significant subnational level involvement in regional policy did not emerge until the 1980s or later. This was accompanied by an emphasis on regional programming, partly stimulated by approaches under the Structural Funds, but also under domestic systems such as the *contrats de plan* regime in France, which used the regional level to develop appropriate strategies. Nevertheless, the national level remains the key driver of policy in number of countries, while in others this tier has ceased to have a role.

Figure 1 outlines in summary fashion where the primary responsibility for regional policy lies within European countries, distinguishing between five groupings. In some countries, **policy is essentially national with no significant subnational component**. For the most part, countries falling within this group are in Central and Eastern Europe, where the subnational level remains relatively underdeveloped, or are comparatively small in population or geographical terms. In a second group, policy is **predominantly national but with significant subnational coordination mechanisms**. These mechanisms differ in nature and maturity, with the subnational tier in some countries still lacking the required strategic approach or funding to participate fully in the process. In a small group of countries **responsibility is essentially shared between national and subnational levels**. These countries have marked internal disparities, but also defined responsibilities for economic development set out in their respective constitutions. In another small group of countries, responsibility is **predominantly subnational, but there are important coordination mechanisms**. These countries are characterised by relatively high levels of national prosperity and limited internal disparities, as well as being geographically small. Last, there are two countries where policy can be said to be

**predominantly subnational, with no significant national role.** Here, substantive policy choices have been devolved, though the national level retains a role in some EU matters, notably the negotiation of the Regional aid guidelines and the Cohesion policy budget.

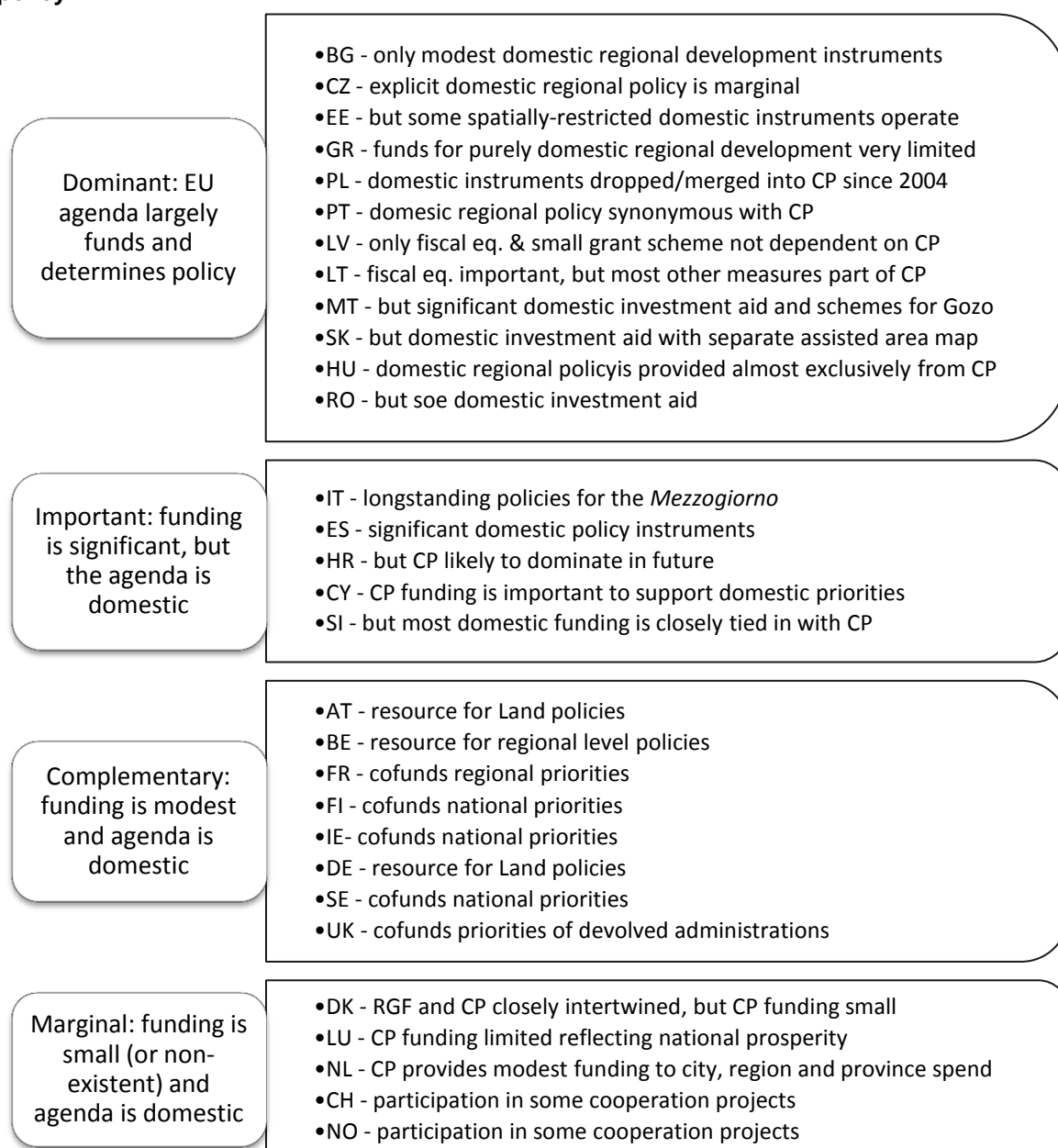
**Figure 1: Who drives regional policy at the domestic level?**



The role of EU Cohesion policy is an important factor in comparing approaches to regional policy. In some countries that receive substantial amounts of funds, EU cohesion policy can be said to be **dominant**. Funding levels are significant as a proportion of national GDP and there are few, if any, instruments of domestic regional policy that are operated independently of Cohesion policy or without the Structural and Investment Funds monies, the main exception being fiscal transfers that often have an implicit bias in favour weaker regions. This can be said to be true of most of the Central and

Eastern European Member States, Malta, Portugal and Greece. In a second group, Cohesion policy is **important**, certainly in terms of scale, but the content of policy tends to be driven more strongly by domestic agendas than in the first grouping. In a third grouping, principally of countries in Northern and Western Europe, Cohesion policy funding can be regarded as **complementary** to existing national and regional strategies, particularly those related to Lisbon agenda objectives. Often ERDF funding is channelled to the subnational level to finance devolved policies, but European Social Fund monies are more typically deployed through national programmes. In the final grouping the influence of Cohesion policy could be classed as **marginal**; the group is composed of prosperous countries with very limited Cohesion policy allocations, along with non-EU Member States where the impact relates solely to participation in transnational or regional border cooperation initiatives.

**Figure 2: What is the role/influence of Cohesion policy on regional economic development policy?**



### 3.3 What are the objectives of regional policy?

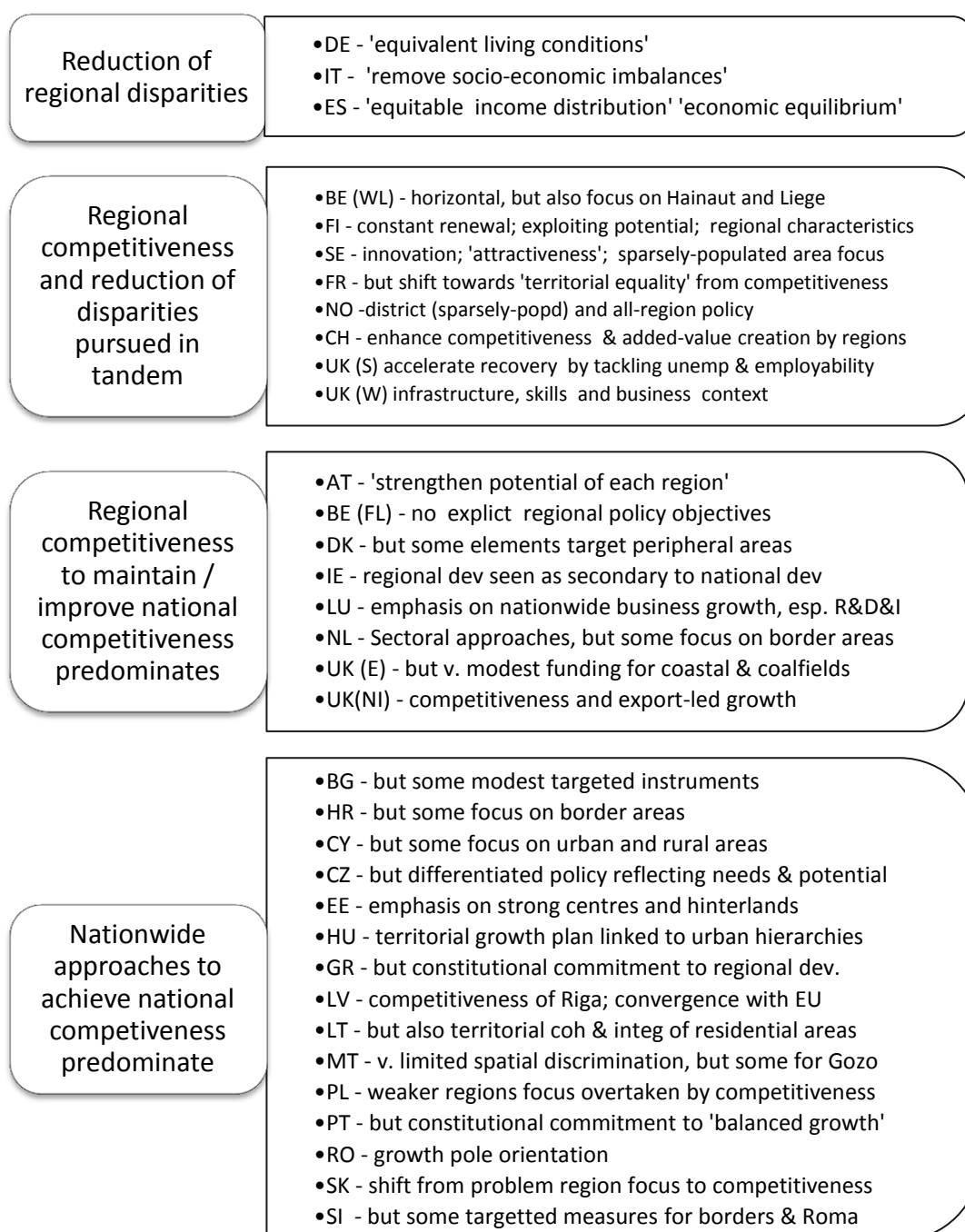
The objectives of regional policy are commonly discussed in terms of whether their primary orientation is to promote 'efficiency' or 'equity' although the definition of these terms varies greatly. An efficiency goal in regional policy is typically interpreted as maximising the contribution of regions to national growth, whereas an equity goal frequently means reducing socio-economic differences between regions. In practice, the differences are not so clear cut: a strategy to reduce disparities by exploiting underused potential in lagging regions, or improving productivity, is likely to improve overall national efficiency, at least in the long term. Thus, the regional policies of many countries involve a mix of efficiency and equity objectives, with different policy elements or interventions serving different aims.

The objectives of regional policy and the level in the legislative hierarchy at which they are set vary considerably. Many countries enshrine provisions relating to balanced regional development or territorial equality in their constitutions, whereas elsewhere the key objectives are set out in primary legislation. However, constitutional provisions are rarely self-executing so the nature of the legal base is not necessarily significant. The extent to which high level objectives related to regional equity and efficiency actually feeds through into policy instruments also varies, often owing to political will and budgetary pressures. This is perhaps particularly true in many of the Central and Eastern European Member States, but also Greece and Portugal where regional development objectives are given some prominence, but tend to be rather formulaic and all-encompassing, moreover, in practice, policies in many of these countries actively promote national prosperity, at the expense of targeting problem regions, often exacerbating regional differences – in spite of the stated policy aims of reducing regional disparities.

Figure 3 presents a four-way classification of countries reflecting the spectrum of country approaches. A first group comprises countries where there is a constitutional commitment to the **reduction of regional disparities** that is carried through into primary legislation. All three countries in this group are large and have significant macro-regional differences. The second and third groups reflect a widespread trend of the last decade towards all-region policies aimed at increasing regional and national competitiveness and often with a particular focus on innovation. In the second group **regional competitiveness and reduction of disparities are pursued in tandem**. Among the Nordic countries in this group there is a high level commitment to addressing the particular disadvantages facing the northern and sparsely-populated regions, but also an increasing emphasis on supporting innovation in all regions. Similarly, in Belgium (Wallonia), France, Switzerland and parts of the United Kingdom (Scotland and Wales), there are targeted policies that seek to reduce disparities, alongside ones that aim to promote the competitiveness of all regions. Elsewhere, the spatial dimension is less prominent and in the third group **regional competitiveness to maintain or improve national competitiveness predominates**. The economies in this grouping are typically smaller and relatively prosperous in EU terms, notably Austria, Denmark, Luxembourg and the Netherlands, with limited internal regional disparities and high levels of social protection, though this is less true of Ireland and the United Kingdom (England and Northern Ireland). In the fourth group, **nationwide approaches to achieve national competitiveness predominate**. In these countries – stated policy objectives notwithstanding – the emphasis is on improving the national situation in relation to the EU average, even at the expense of widening disparities, at least in the short term. National income per head in these countries is below the EU average, and the focus of much policy (almost exclusively through Cohesion policy) is on the competitiveness of the stronger regions and the development of urban hierarchies and growth poles. This is not to say that regional disparities are ignored completely, but

the emphasis on reducing them is limited often to a few short-lived and low key measures by comparison to the main thrust of policy.

**Figure 3: What drives regional policy in European countries?**

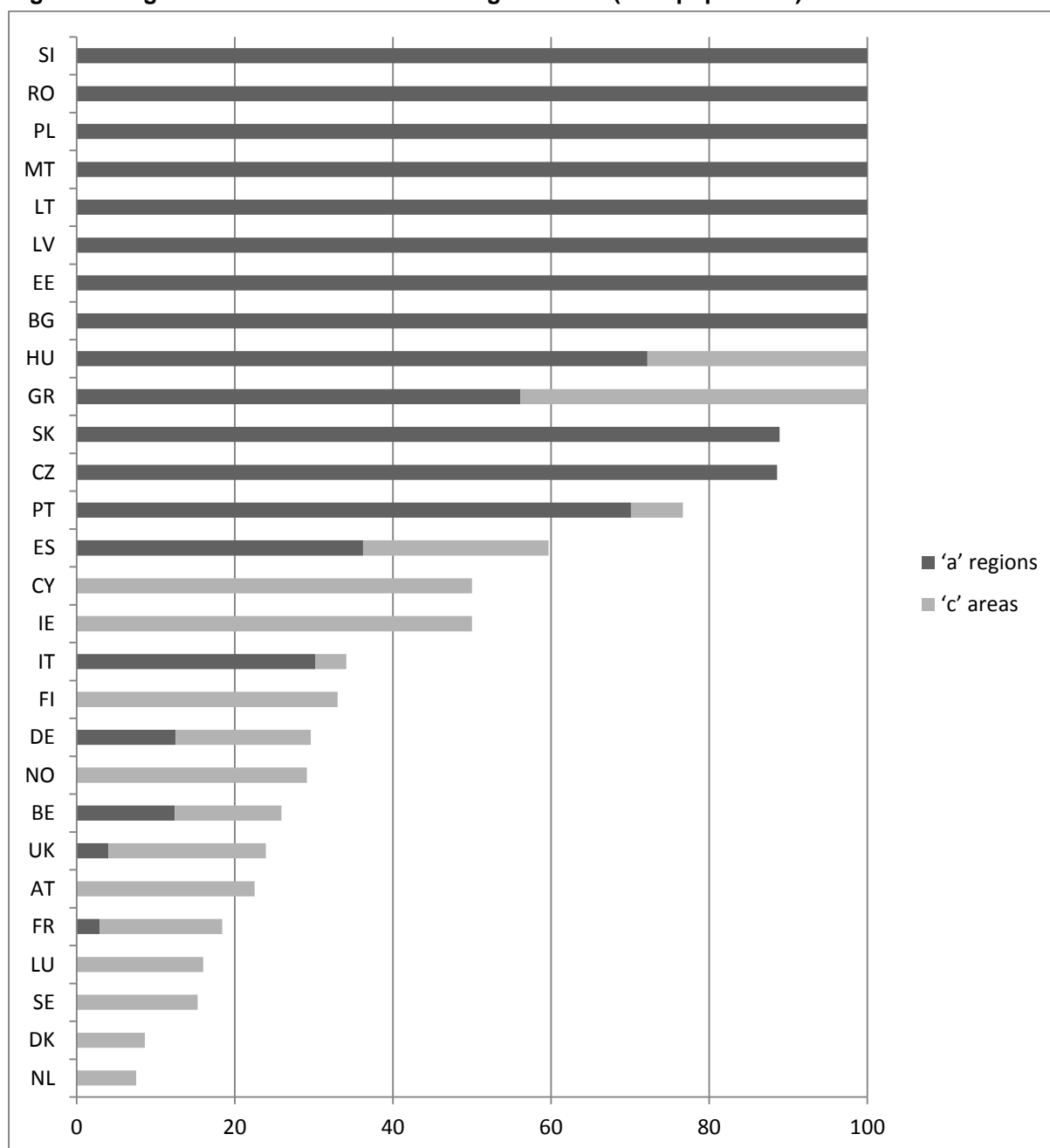


### 3.4 What is the spatial focus of policy?

The spatial focus of regional policy is its distinguishing feature – implicit in the notion of regional policy is that there is a geographical dimension to policy. For EU countries, the nature and extent of coverage is conditioned by three factors: the regional aid guidelines, which determine the areas in which large firms can receive investment aid and SMEs qualify for higher rates of aid; EU Cohesion policy, which currently distinguishes between Convergence and Regional Competitiveness and

Employment (RCE) regions, along with transitional regions; and domestic policy choices. In Switzerland, policy is purely a domestic affair while in Norway EEA membership requires compliance with the regional aid guidelines. Current coverage of the regional aid maps is set out in Figure 4, ranked by total coverage as a percentage of population.

**Figure 4: Regional aid assisted area coverage 2011-13 (% of population)**



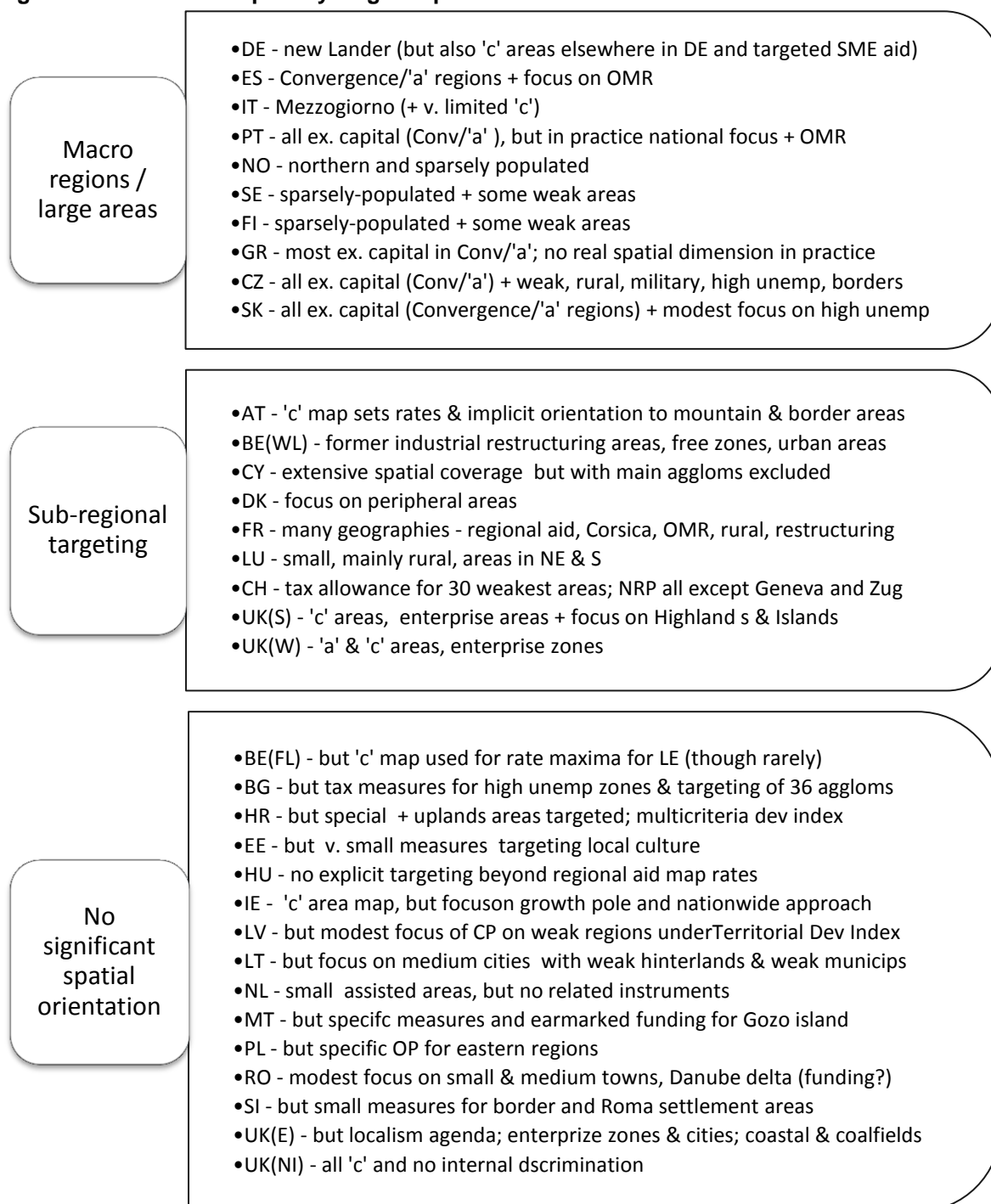
**Note:** In general the duration of the maps is 2007-13, but some changes were introduced from the start of 2011 for Statistical Effect areas; these changes are reflected above.

**Source:** Guidelines on national regional aid for 2007-13, [2006] OJ C54/13, as amended by Communication on the review of State aid status, [2010] OJ C222/2.

As Figure 4 shows, coverage of the regional aid areas varies considerably, from 100 percent in many of the Central and Eastern European countries, Baltic States and Greece, to less than ten percent in Denmark and the Netherlands. Importantly, however, this coverage *only* affects the spatial availability of measures that involve State aid. Cohesion policy intervention now takes an all-region approach

with the Convergence regions largely coinciding with the 'a' regions. Spatial discrimination between Convergence and RCE areas is reflected principally in budgetary allocations and co-funding rates. Against this background, there are significant variations between countries in the approaches to spatial targeting; three broad groups are identified in Figure 5.

**Figure 5: The focus of spatially-targeted policies**



In some countries there is a focus on **macro regions or large areas** but the context varies significantly within this group. In Germany, Spain and Italy the principal spatial orientation is towards the 'a' / Convergence regions and this prioritisation largely coincides with domestic perceptions of the

regional problem. In addition, there is some targeted intervention on 'c' areas. In Norway, Sweden and Finland the main focus of spatially-restricted policy is on the northern and sparsely-populated regions (although as noted earlier, all-region policies are significant). In Portugal, Greece, the Czech Republic and Slovakia, most of the national territory has 'a' region / Convergence status, the principal exclusions being the capital regions. In practice, however, the spatial orientation towards the 'priority' regions is very limited and economic development policy is driven by a national competitiveness approach rather than one that favours the problem regions.

A second group of countries pursues a degree of **sub-regional spatial targeting**. These are countries with no significant macro regional disparities and limited or no 'a' / Convergence region coverage. The geography of intervention largely follows the 'a' and 'c' area maps areas (though clearly this does not apply to Switzerland), but countries sometimes opt to introduce additional geographies such as rural areas or enterprise zones, which may fall outside the map, but where SMEs can be supported or *de minimis* and other non-aid measures deployed.

In a third group of countries, it can be argued that there is **no significant spatial orientation**. This group comprises countries that appear relatively prosperous in the EU context (the Netherlands, UK (England)) and where internal disparities are either not great or not given high priority. In addition, it also comprises a number of principally Central and Eastern European countries which are eligible in their entirety for aid as 'a' regions, but with limited rate discrimination imposed by the DG Competition. In a number of these countries, there are specific measures targeting disadvantaged areas, but their scope and scale is dwarfed by measures promoting a national competitiveness agenda.

### **3.5 What are the instruments of regional policy?**

The instruments of regional policy have undergone a profound change in the last two decades with a decline in the use of regional incentives to firms, location controls and public sector investment targeted at specific regions in favour of all-region strategies and programmes with a strong emphasis on coordination between tiers of government and agencies, a proliferation of smaller initiatives and 'softer' measures. The shift in approach presents considerable challenges in comparing and contrasting policies across countries, and no national typology can neatly encapsulate the range of instruments since most countries typically operate a range of measures of different scales and at different tiers of government. This is illustrated (albeit in abbreviated form) in Figure 6 which presents examples of some of the main types of measure deployed in European countries. Further information on these measures is provided in the tables accompanying this overview and in the individual country reports.



**Figure 6: The diversity of regional policy instruments: an illustrative list...**

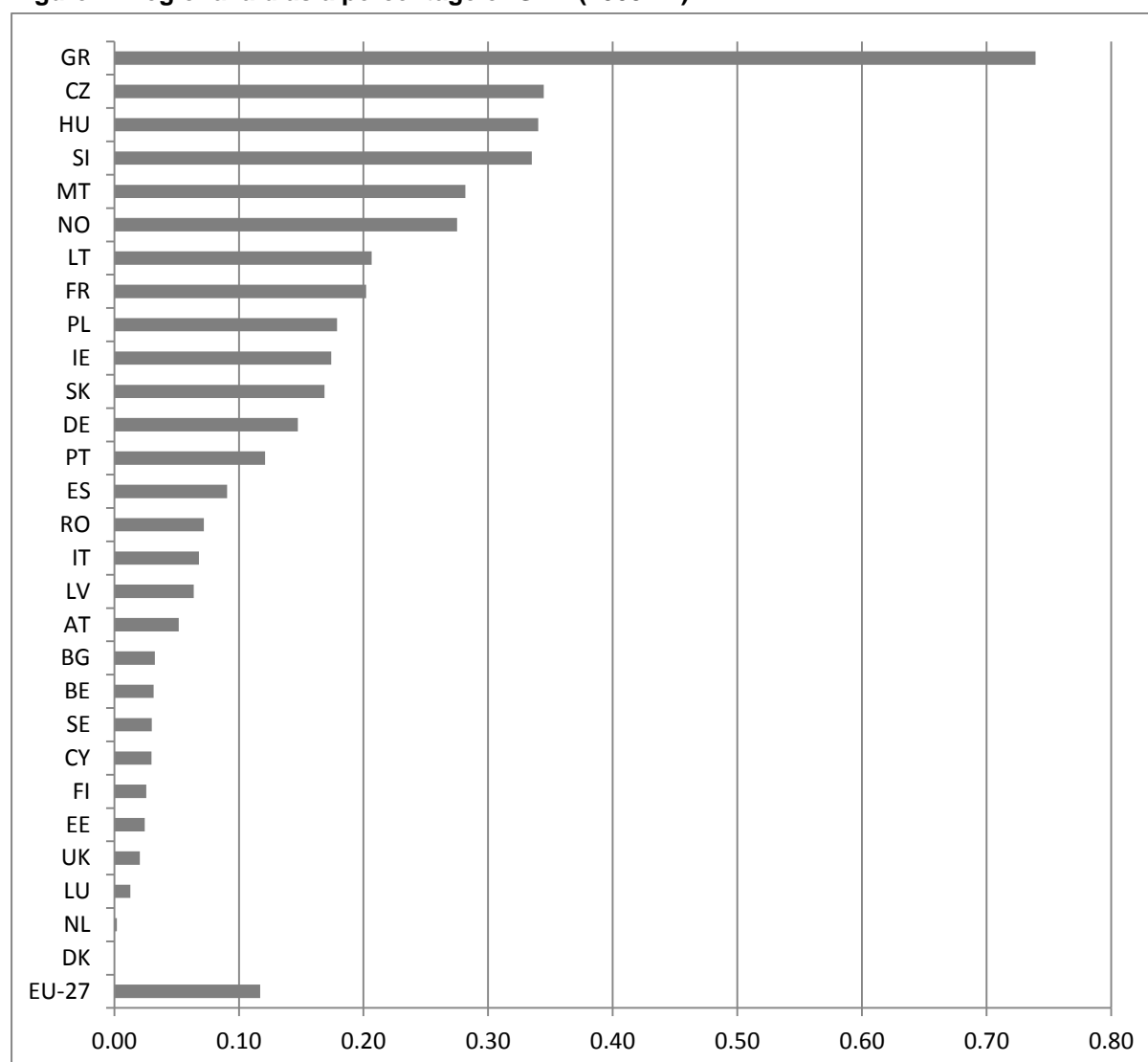
Solidarity transfers / major fiscal equalisation mechanisms	<ul style="list-style-type: none"> <li>•DE, ES, CH have significant horizontal solidarity mechanisms; FSC in IT; fiscal equalisation important in many countries</li> </ul>
Regional investment grants for large enterprises	<ul style="list-style-type: none"> <li>•Available in most western and northern MS, ex DK and NL, and many CEE and Baltic States (though tax relief often predominates)</li> </ul>
Loans for investment in assisted areas	<ul style="list-style-type: none"> <li>•ERP loans in AT, DE; FI - Finnvera loans &amp; guarantees; NO - Innovation Norway loans</li> </ul>
Tax-based support for business investment	<ul style="list-style-type: none"> <li>•Common in CEE and Baltics States, also CH, GR, IT, MT &amp; FR; SEZ in PL; NO Action Zone</li> </ul>
SME support favouring weaker regions	<ul style="list-style-type: none"> <li>•SME scheme in CY; renewal fund in DK; IT youth entrepreneurship scheme; subnational measures in many countries</li> </ul>
Transport aid	<ul style="list-style-type: none"> <li>•FI, NO, SE to subsidise costs from peripheral regions; GR school transport and selected shipping and air routes</li> </ul>
Targeted social security concessions	<ul style="list-style-type: none"> <li>•NO - major incentive; UK - temporary SME measure outside SE Eng</li> </ul>
Targeted support for economic restructuring	<ul style="list-style-type: none"> <li>•BG, SI aid for high unemployment areas ; CZ, FR former military zones: FR - territorial renewal fund; UK(E) coastal &amp; coalfields initiatives; border areas SI, HR</li> </ul>
Support for ethnic/ language minorities	<ul style="list-style-type: none"> <li>•SI - development of Roma settlements; IE - Gaeltacht areas; FI, SE Sami population; EE preservation of specific local cultures</li> </ul>
Support for business infrast. in weaker regions	<ul style="list-style-type: none"> <li>•BG support for local infrastructure and training; CZ demolition and reconstruction of property; DE business-oriented infrastructure</li> </ul>
Sectoral / cluster strategies	<ul style="list-style-type: none"> <li>•Top sectors NL; Enterprise areas/zones UK(E, S&amp;W); FI Centre of Expertise Programme; FR competitiveness poles</li> </ul>
Polycentric dev / urban hierarchies	<ul style="list-style-type: none"> <li>•IE - gateway cities; LT - regional growth centres; RO - national growth poles &amp; urban dev poles</li> </ul>
Quality of life / local services/ attractiveness	<ul style="list-style-type: none"> <li>•NO - Bulyst and Merkur; FR rural excellence poles; PT promotion of unique territorial assets; MT Eco-Gozo; SE - 'attractive Sweden'</li> </ul>

**Note:** This figure is intended merely to illustrate the range of measures by example and is not a comprehensive summary of the measures described in the country reports.

### 3.6 How much is spent on regional policy?

The growing diversity and complexity of regional policy instruments also presents challenges in assessing spending. This task is made yet more difficult by the presence of significant levels of EU co-financing in many countries and often the impossibility of disentangling the source of funding in final expenditure data. The country reports and instrument fiches provide some data at the national level, but there are serious issues when it comes to comparability of information. In practice, there are only two comparative sources of information on regional policy spend: the annual State aid reports by DG Competition and the EFTA Surveillance Authority;<sup>17</sup> and information on Cohesion policy.

**Figure 7: Regional aid as a percentage of GDP (2009-11)**



**Note:** No data are available for Croatia or Switzerland.

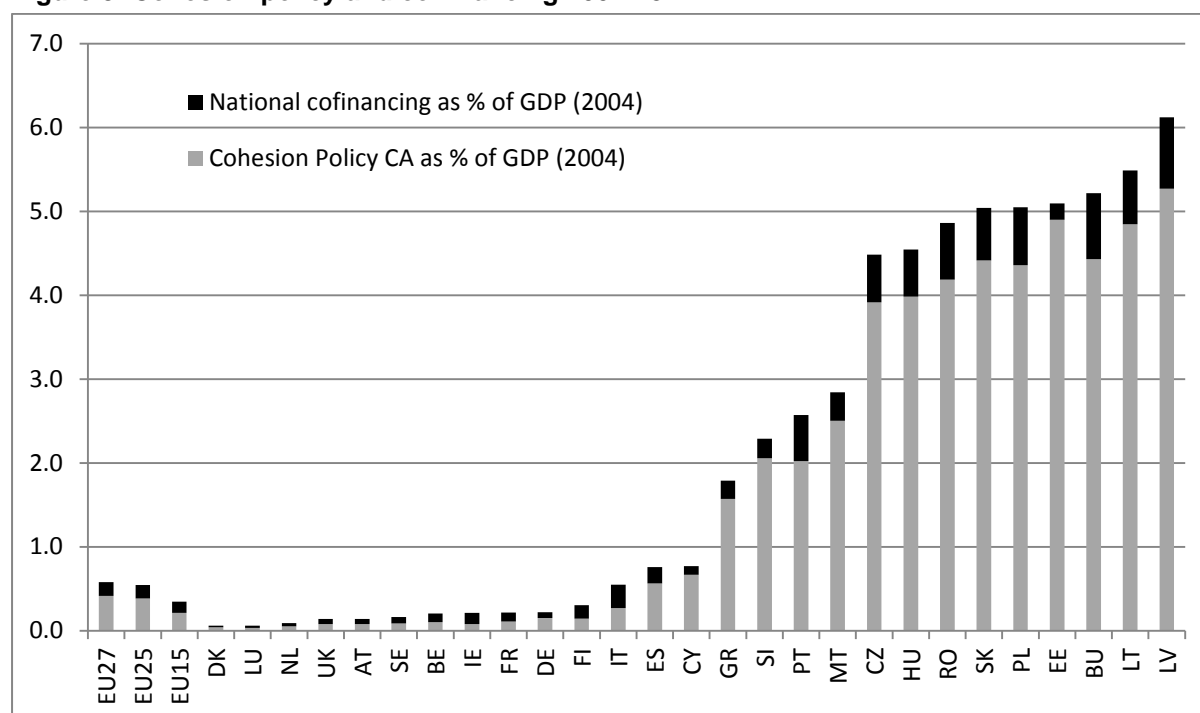
**Source:** EPRC calculations from DG Competition and EFTA Surveillance Authority Annual Reports.

Figure 7 presents regional aid spending as a proportion of GDP based on the latest data available. This shows annual average expenditure on regional aid ranging from over 0.7 percent of GDP in Greece to barely perceptible levels in Denmark and the Netherlands, in the latter two cases very much in line the policy typologies for these two countries. However, these data should be treated with

<sup>17</sup> Obviously neither of these covers Switzerland, nor, to date, Croatia.

much caution and this for several reasons. First, no information is available on which schemes are included in the data, so what constitutes a 'regional aid' in this context is not clear; second, the extent to which these data include Cohesion policy co-financing is unclear (and may vary between countries); and last, the data include actual spend, budget provisions, where actual spend is not available and estimates where neither is available, with the result that the aggregates are composed of data that are rather different in nature.

**Figure 8: Cohesion policy and co-financing 2007-13**



**Note:** The data refer to the initial commitment appropriations and associated co-financing and do not take any account of any subsequent adjustments.

**Source:** EPRC calculations from DG Regio data.

EU Cohesion policy is a very significant financial resource in many EU12 countries and a recurrent theme in this discussion has been that there is no practically no domestic policy response to regional disparities beyond that provided for by Structural and Cohesion Funds. Elsewhere, the scale of spend is marginal at the national level, though it may retain considerable importance at the regional level in leveraging in funding. However, across the board, the extent to which Cohesion policy is deployed to address regional disparities varies.

Figure 8 illustrates the wide differences in the scale of Cohesion Policy commitments both in terms of EU and national commitments. For nine of the EU12 countries, annual commitments average around four percent or more of 2004 GDP,<sup>18</sup> while at the other end of the spectrum, in Denmark and Luxembourg, Cohesion policy contributions represent 0.04 percent of GDP or less. Also important in terms of *national* policy is the scale of domestic funding that is tied to co-financing EU Cohesion policy. Here five broad groups of countries can be identified as illustrated in Figure 9.

<sup>18</sup> This reference point is used as Cohesion policy spending for 2007-13 was initially set in 2004 prices.

**Figure 9: National cofinancing of Cohesion policy as a percentage of national GDP**

Over 0.75 of GDP	LT (0.85%) BG
Between 0.55% and 0.7% of GDP	PL RO LT SK CZ HU PT
Between 0.2% and 0.35% of GDP	MT IT SI GR
Between 0.1% and 0.2% of GDP	EE ES FI IE BE FR CY
Less than 0.07% of GDP	SE DE AT UK NL LU DK (0.02%)

These disparities are highly significant: in relative terms, for example, Lithuania spends forty times more than Denmark in cofinancing Cohesion policy. Whilst this is the most extreme comparison, it is scarcely surprising that many of the EU12, and Greece and Portugal, should find it difficult to justify and fund a distinct domestic regional policy.

### 3.7 Conclusions

The aim of this chapter is to identify some of the commonalities and contrasts in 'regional policies' in Europe. Identifying typologies is made complex by the absence of any shared understanding of what regional policy actually is, though a working definition might be 'policies to address spatial economic disadvantages'. There are several dimensions to the ways in which regional policies cluster:

**Who drives policy?** Historically, regional policy has tended to be primarily a national government function other than in federal states, but in the last two decades patterns have shifted to reveal a much wider spectrum of experiences and five main domestic models can be identified:

- Policy is essentially national with no significant subnational component
- Policy is predominantly national but with significant subnational coordination mechanisms
- Responsibility is shared between national and subnational levels
- Policy is predominantly subnational but with important coordination mechanisms
- Policy is predominantly subnational with no significant national role

Regional policy in most European countries is not driven by domestic considerations alone; EU cohesion policy also plays a part, but its role varies in intensity between countries, as reflected in four main typologies of Cohesion policy influence:

- Dominant: the Cohesion policy agenda largely funds and determines policy
- Important: Cohesion policy funding is significant, but the agenda is domestic
- Complementary: Cohesion policy funding is modest, and the agenda is domestic
- Marginal: Cohesion funding is small or non-existent and the agenda is domestic

**What are the objectives of regional policy?** The regional policies of many countries involve a mix of equity and efficiency objectives, with different policy elements and interventions addressing different aims. In large measure the four-way classification of objectives that emerges reflects the extent and nature of internal disparities and levels of national prosperity:

- Reduction of regional disparities
- Regional competitiveness and reduction of disparities pursued in tandem
- Regional competitiveness to maintain / improve national competitiveness predominates
- Nationwide approaches to achieve national competitiveness predominate

**What is the spatial focus of regional policy?** The spatial focus of regional policy is its distinguishing feature – implicit in the notion of regional policy is some geographical dimension. For EU countries this is to some extent conditioned by EU Cohesion policy and the competition rules on State aid, which determine the scope and shape of the assisted area maps. The interaction of these factors, as relevant, with domestic considerations, varies between countries with three main approaches to spatial targeting:

- A policy focus on extensive assisted areas or macro regions
- Sub-regional spatial targeting focused on specific, sometimes differentiated area types
- No significant spatial targeting, but modest spatially-differentiated measures may be used

**What are the instruments of regional policy?** The instruments of regional policy have undergone a profound change in the last two decades with a decline in the use of regional incentives to firms, location controls and public sector investment targeted at specific regions in favour of all-region strategies and programmes with a strong emphasis on coordination between tiers of government and agencies, a proliferation of smaller initiatives and ‘softer’ measures. No national typology can neatly encapsulate the range of instruments since most countries typically operate a range of measures of different scales and at different tiers of government.

**What is the scale of regional policy?** The growing diversity and complexity of regional policy instruments - as well as the absence of a common understanding of what regional policy is - also presents challenges in assessing spending. There are few sources of comparative information on expenditure and these are far from comprehensive. Nevertheless, it is clear that there are significant differences between countries in the amounts spend on regional aid, ranging from over 0.7 percent of GDP to no spend at all. Levels of Cohesion policy funding also vary very widely between countries; perhaps more important, however, is the variation in the national cofinancing commitment. The very high levels of commitment for many EU12 countries explain why these countries have little or no domestic policy response to regional disparities.

## 4. REGIONAL POLICY REASSESSED: RECENT DEVELOPMENTS IN REGIONAL POLICIES IN EUROPE

### 4.1 Introduction

Regional policy in Europe is going through a dynamic period of change, with many countries undertaking extensive analyses and reviews of policy objectives and governance. The conceptual basis of regional policy is currently being reassessed in a number of countries, and concerns with efficiency and effectiveness are prominent. The global economic crisis has continued to pose territorial development challenges, while also limiting the opportunities available to governments to finance regional policy responses. Beyond this, fundamental questions are being asked about whether and how governments should respond to uneven territorial development.

Reform is generally related to preparations for the new 2014-20 programme period under EU Cohesion policy and the EU regional aid guidelines. In addition, some major reforms of regional policy are underway (e.g. in **France, Norway**), relating to the conceptual basis, strategic objectives, instruments and implementation of the policy. Recent revisions of regional policy have also included reassessments of geographical focus and the development of new, more flexible or functional territorial categories that cut across administrative boundaries (e.g. **Sweden**). Many policy-makers are increasingly concerned with assessing the impact, efficiency and 'value for money' of policy initiatives, identifying the factors that explain policy success or failure, and strengthening the capacity of various partners to implement policy. This is reflected in recent reforms to strengthen the institutional management of policy, including through the reallocation of responsibilities or the merging of local government units (e.g. **Finland** and **Slovenia**), as well as in the increased importance now accorded to evaluation studies (e.g. **France**).

Funding constraints are pushing policymakers to improve the cost-effectiveness of interventions, which at times is including efforts to enhance coordination of regional and sectoral policies. Better synergies between different departments and levels of government are also being introduced or explored (**Czech Republic, Hungary, Lithuania**). Established mechanisms for coordination operate through constitutionally-based federal/regional frameworks and committees (**Germany**), strategic frameworks (**Switzerland**), contractual mechanisms (**France, Poland**) and consultative fora (**Austria**). New initiatives include 'competence platforms' to promote exchange of experience in Sweden and 'regional strategic agendas' in the **Netherlands**.

This chapter provides a synthesis of the changes to regional policy over the 2012-13 period in the 30 European countries covered in this study. As the primary focus is on recent changes, there is only limited emphasis on describing the *status quo* or the situation of countries where only limited or not reviews or shifts are underway under the different policy dimensions discussed.

The chapter begins by discussing the developments with respect to the strategic objectives of regional policy (see Section 4.2). This includes an assessment of changing strategic priorities and also the role of strategic frameworks in coordinating regional and sectoral policies. Section 4.3 reviews recent changes in the geographical focus of regional policy, identifying a range of territorial categorisations introduced to target specific areas with particular potentials and needs. The focus then shifts in Section 4.4 to recent developments affecting the institutional structures involved in the

design and delivery of regional policy. Section 4.4 notes an emphasis on policy performance and management and assesses the strengthening role of evaluation in national regional policy systems. Section 4.6 reviews recent changes in the funding allocated to regional policy, where budget cuts are ongoing in many, though not all, countries. Changes to the instruments of regional policy, some prompted by evaluation evidence, others made in response to the economic crisis, are reviewed in Section 4.7. Drawing on the main points to emerge from this chapter and as a starting point for discussion at the EoRPA meeting, the final section identifies a number of issues which are currently on the policy agenda.

Further detail on all the changes mentioned in this chapter is available in the country reviews, which also set the developments into the political, institutional and policy context of each country.<sup>19</sup>

## 4.2 Strategic developments

The strategic objectives of regional policy tend to remain consistent over time, with objectives that are long term and sometimes related to the basic functions of the State, such as ensuring territorial cohesion, access to services or equivalent living standards nationwide. Nevertheless, the past 18 months has been an intense period of strategic review and reassessment, partly due to developments at the EU level, as some of the main strategic changes are associated with preparations for the new 2014-20 programme period under EU Cohesion policy and under the 2014-20 regional aid guidelines. In the context of Cohesion policy, EU Member States are developing Partnership Agreements (PAs) and associated Operational Programmes (OPs). This process has emphasised specific policy themes under the Europe 2020 agenda: employment, R&D and innovation, renewable energy, human capital and social inclusion.<sup>20</sup> In addition, the new regional aid guidelines for 2014-20 are leading to the submission of new regional aid maps and related regional aid regimes. At the same time, in several countries, changes in the strategic objectives of regional policy are informed by major domestic policy reviews, often driven by the effects of the crisis and cuts in public spending. This section assesses recent developments with respect to the strategic objectives of regional policy, including a review of changing strategic directions and also the role of strategic frameworks in coordinating regional and sectoral policies.

### 4.2.1 The influence of EU policy frameworks in preparing for 2014-20

The new Cohesion policy frameworks and regional aid guidelines for the 2014-20 period are shaping the strategic context in which regional policy operates. All EU Member States are preparing PAs and OPs and adapting State aid maps and regional aid instruments in response to new regional aid guidelines. These processes have influenced the overall strategic frameworks of regional policy to varying degrees. Of particular note are the examples of **Italy** and **Austria**.

- In **Italy**,<sup>21</sup> the preparations for the 2014-20 period entail the introduction of several methodological innovations – partly ‘tested’ through the implementation of the Cohesion Action Plan (PAC)

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<sup>19</sup> The research has covered the EU28 plus Norway and Switzerland. See: *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>20</sup> See also: Mendez C (2013) *Cohesion Policy Paper*, EoRPA Paper 13/4, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>21</sup> Polverari L (2013) Between Fiscal Austerity and Political Change: regional policy developments in Italy, 2012-13, Chapter 15 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

initially agreed with the European Commission in October 2011 and updated twice in 2012.<sup>22</sup> These innovations aim to increase the results-orientation (for instance, via more careful design of actions and consideration of projects' timetable, more emphasis on targeted impact evaluation and, crucially, increased central-level steer and coordination), as well as to strengthen partnership and transparency.<sup>23</sup>

- In **Austria**,<sup>24</sup> the 2014-20 Cohesion policy period will bring about significantly reduced funding allocations. However, the regional policy platform 'STRAT.ATplus' has been re-launched in 2012 as 'STRAT.AT 2020' with a series of regional policy conferences, mainly as part of the preparations for the forthcoming Partnership Agreement.<sup>25</sup> The STRAT.AT process, originally introduced for the 2007-13 period, is based on Austria's strategic framework for Cohesion policy but aims to build a bridge across all major development policies and provides a platform for discussion and the exchange of experience.

The influence of EU frameworks on regional policy strategic objectives is particularly marked in the Member States of Central and Eastern Europe (CEE) where Cohesion policy accounts for the overwhelming majority of regional policy funding. A typical approach in these countries is the development of a strategic framework document for both Cohesion policy and national territorial development interventions (see Table 1). One of the leading examples of this is the National Strategy for Regional Development (KSRR) in **Poland**<sup>26</sup>. The KSRR aims to assert Poland's broad domestic development vision, aligned with Cohesion policy. Similarly, in **Bulgaria**, a number of documents were developed and approved in 2012-13, re-defining the country's regional policy, including a new National Strategy for Regional Development 2012-22 which is serving as the basis for the new generation of Cohesion policy programmes.

These documents emphasise objectives that foster competitiveness, entrepreneurship and innovation, in line with the priorities set out in the Europe 2020 agenda. However, it is important to note that these new strategies aim to determine or guide broader, national approaches to regional development. In the **Czech Republic**, the preparation of a new domestic Regional Development Strategy (RDS) 2014+ is close to approval and it includes elements of the contemporary 'regional policy paradigm', evident across Europe to varying degrees: the designation of functional regions; the aim to support development in all territories; an emphasis on regional competitiveness and sustainable development; and moves towards more intensive involvement of regional actors. The new regional development strategy (RDS 2020) in **Estonia** has a strong emphasis on competitiveness, focussing on the development of regional centres at the expense of less-developed regions. A new National Development Plan for **Latvia** (2012-20), includes revised policy objectives in National

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<sup>22</sup> Governo Italiano (2011) *Piano di Azione Coesione per il Miglioramento dei Servizi Pubblici Collettivi al Sud: Risultati attesi a azioni da intraprendere*, Rome, 15 December 2011.

<sup>23</sup> Ministro per la Coesione Territoriale, d'intesa con i Ministri del Lavoro e delle Politiche Sociali e delle Politiche Agricole, Alimentari e Forestali (2012) *Metodi e obiettivi per un uso efficace dei Fondi comunitari 2014-2020*, 27 December 2012, <http://www.governo.it/backoffice/allegati/70171-8341.pdf> (accessed 19 September 2013).

<sup>24</sup> Kah S (2013) Stability in Busy Times, regional policy developments in Austria, 2012-13, Chapter 1 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>25</sup> For more information, see <http://www.oerok.gv.at/eu-regionalpolitik/eu-kohaesionspolitik-2014/nationale-strategie-stratat-2020.html> (accessed 18 September 2013).

<sup>26</sup> Ferry M (2013) Negotiating Development: regional policy developments in Poland, 2012-13, Chapter 22 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.



Regional Policy Guidelines that give greater priority to the growth of national and regional development centres, usually associated with the major cities and towns.

**Table 1: Strategic frameworks in Central and Eastern Europe**

Country	Regional development strategy/framework	Period
BG	National Strategy for Regional Development	2012-2022
	National Spatial Development Concept	2013-2025
CZ	Regional Development Strategy 2014+	2014-2020
EE	Regional Development Strategy	2005-2015
	National Spatial Plan 'Estonia 2030'	2012-2030
HU	National Spatial Development Policy Concept	2014-2020
LV	National Regional Policy Guidelines	2014-2020
	Sustainable Development Strategy of Latvia until 2030	2010-2030
LT	Regional Policy Strategy of Lithuania	2005-2013
	Programme for Reduction of Social & Economic Differences of Regions	2011-2013
PL	National Strategy for Regional Development	2010-2020
	National Spatial Development Concept	2010-2030
RO	Strategic Concept of Spatial-Territorial Development - 2020	2008-2030
SK	National Strategy for Regional Development	2010-2030
SI	Slovenia's Development Strategy	2014-2020

#### **4.2.2 Domestic strategic reviews rebalancing objectives...**

Beyond preparations for the next Cohesion policy programming period, further changes in strategic objectives have been prompted by broader reviews of regional policy. While political factors are invariably key determinants of change, the reviews have also been driven by an increasing concern with the efficiency and effectiveness of regional policy in the context of the crisis and cuts in public spending. A range of strategic themes emerge from these assessments. The emphasis placed on issues of territorial equity, 'well-being' and cohesion in regional policy strategies is apparent in the context of the crisis. A rebalancing of strategies that previously focused heavily on competitiveness rather than equity-related objectives is underway in countries such as **France, Norway and Finland** (see Table 2).

Where domestic reviews have taken place, the conceptual approach varies across countries, but generally, it goes beyond a purely economic vision of development, encompassing the notion of the population's welfare and wellbeing. For example, the new government in **France**<sup>27</sup> has stressed the strategic objective of 'territorial equality' although discussions on the balance between equity and competitiveness are still ongoing. In this context, the objective can also be understood as 'territorial justice', 'territorial continuity' and 'territorial cohesion'.<sup>28</sup> Increased attention to equity-objectives is

<sup>27</sup> Gross F (2013) A Year of Transition: regional policy developments in France, 2012-13, Chapter 10 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>28</sup> Laurent E (2013) Vers l'égalité des territoires: une introduction, in: Laurent E (ed.) *Vers l'égalité des territoires, Dynamiques, mesures, politiques*, pp. 6-24.

often tied to specific issues that are prominent in a particular national context. A 2013 regional policy White Paper in **Norway**<sup>29</sup> has reconceptualised the regional problem. The White Paper regards balanced regional development as a prerequisite for optimal national growth, while equal living conditions – notably job opportunities for all and adequate provision of public services – are regarded as a precondition to the achievement of regional development objectives, partly in response to new demographic processes.<sup>30</sup> Similarly, In **Finland**,<sup>31</sup> welfare issues have come to the fore in regional policy as a result of population ageing, an increasing need for services, and local economic constraints. Furthermore, particular attention is paid to preventing urban poverty and reducing social segregation.

**Table 2: Equity-related objectives in regional policy**

Country	Strategy	Issues
France	2013 Government Report	Territorial equity and cohesion.
Finland	Review of regional development targets 2011-15	Welfare and service provision, urban poverty, social segregation, population ageing.
Norway	2013 White Paper	Balanced development, equal living conditions, job opportunities for all, adequate provision of public services, addressing demographic change.

### 4.3 Geographical focus

In the past 18 months, reassessments of the geographical targeting of regional policy have been undertaken in most countries. A key driver of these reviews has been the negotiations on new EU regional aid guidelines and Cohesion policy programme architecture in the 2014-20 period. Negotiations of the new regional aid guidelines are underway in all Member States and these are covered in detail in the EoRPA paper on State aid and competition policy.<sup>32</sup>

#### 4.3.1 Focusing on struggling areas in the context of the crisis

Structurally weaker areas remain an important focus of regional policies. The targeting of less developed areas has been a significant subject of debate across Europe, emphasised by the economic crisis and by preparations for new Cohesion policy programmes and regional aid maps. However, different issues are prominent in different contexts:

- The designation criteria and means of supporting peripheral or less developed areas are often influenced by Cohesion policy considerations. This dimension is important where funding is stable

<sup>29</sup> Wishlade F (2013) A New Policy Narrative: regional policy developments in Norway, 2012-13, Chapter 21 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>30</sup> Norwegian Ministry of Local Government and Regional Development (2013) *Regional Development in Norway*, Report No.13 to the Storting (2012-2013), Summary, [http://www.regjeringen.no/Documents/RegionalDevelopmentInNorway\\_enkeltss.pdf](http://www.regjeringen.no/Documents/RegionalDevelopmentInNorway_enkeltss.pdf) (accessed 18 September 2013).

<sup>31</sup> Vironen H (2013) Preparing for Future Changes: regional policy developments in Finland, 2012-13, Chapter 9 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>32</sup> Wishlade F (2013) *Competition Policy Paper*, EoRPA Paper 13/5, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

or increasing but where assessments of the 2007-13 period indicate the need to change focus. In **Bulgaria**, for example, although some regions are identified as the most deprived and as eligible for targeted support under the Regional Development Act, they have not to date obtained no specific support from the State, but there is now discussion of support measures for these regions within the 2014-20 Cohesion policy framework. Notably, while most funding under the Cohesion policy OP for Regional Development in 2007-13 is allocated to 36 agglomeration areas (particularly the larger cities), it has been decided that this support will be extended to almost double the number of cities from 2014 onwards. This dimension is also important in some wealthier countries where overall Cohesion policy allocations are falling. For instance, in **Denmark** micro-zoning is seen as an important means of targeting support on peripheral areas in the context of declining Cohesion policy funding.

- Changing economic circumstances are also prompting reflection on the geographical allocation of support. In **Germany**, there is a strong and on-going commitment to targeting regional policy funding on structurally weaker regions, and this approach will be maintained in 2014-20. However, there are discussions over whether the new *Länder* continue to be characterised by disproportionate economic weakness and require special forms of support, not least given the fiscal constraints facing some *Länder* and local authorities in the old *Länder*. A list of 'specially supported areas' targeted in **Latvia** for tax relief due to low levels of employment, economic activity and business development, has been published since 2010. However, due to the improving economic situation and increasing business activity, in 2012 the number of such areas was reduced by approximately a third and in 2013 a decision was taken to replace this form of targeting with criteria that can be applied to all territories.
- Other countries are developing new domestic strategies for peripheral macro regions. In **Poland**, an Eastern Regions OP for 2014-20 is currently being prepared, in conjunction with the development of a new domestic Strategy for the Development of Eastern Poland. In comparison with the previous strategy, the new domestic strategy will draw on the Europe 2020 agenda via a thematic concentration on a limited number of goals: innovation and technology, labour force participation and connective infrastructure. The approach is pragmatic and focuses on what can be done given the challenges involved and the resources available. Similarly, the preparation of a new domestic 'Eastern and Northern **Finland** Programme' was completed at the end of 2012. The aim is to define strategic and concrete measures for the development of the region and the role of EU Structural Funds in this process. There is no separate funding for the programme, as it will depend on existing national and EU Structural Funds.

#### **4.3.2 Identifying functional areas...**

There is a continued focus in regional policy on endeavouring to develop approaches for targeting territories which are seen as 'functional' or economic, rather than administrative. This includes an emphasis on labour market areas and the perceived spatial mismatch between labour and skills supply and demand in some locations. **Norway's** 2013 regional policy White Paper notes the importance of developing a geographical focus that can help target interventions to influence the location of educational and job opportunities, with the aim of supporting national growth and relieving pressure on the major urban centres. Similarly, preparations for the new Regional Development Strategy 2020 in **Estonia** include discussions on whether to place greater emphasis on travel-to-work-areas and regional centres. The development of functional spatial categories that traverse public

authority boundaries is often also a response to complex administrative geographies. In **Sweden**, the concept of functional regions has been promoted to encourage cooperation and joint planning among local and regional actors (e.g. in the fields of housing, transport and regional economic development). The localism agenda of the **United Kingdom** government in England has also promoted the emergence of new geographies (based on combinations of local authority areas) that is changing the territorial boundaries for intervention.

### **4.3.3 Strengthening the urban dimension...**

In this context, the focus on urban areas continues to be prominent. A variety of approaches have emerged over the past year to target cities as motors of regional and national competitiveness.

- First, the integration of the urban dimension is being introduced into regional development policy, notably in **Italy**, where a new Interministerial Committee for Urban Policies (CIPU) was established at the end of 2012. In March 2013, it issued a document entitled 'Methods and Contents for Urban Agenda Priorities' that argues for renewed focus on this theme and more integrated governance. Similarly, in **Poland**, the integration of regional and urban policies has been confirmed as the Ministry of Regional Development has recently taken over responsibilities for urban policy, and is currently preparing a new urban development strategy.
- Second, urban areas may be accorded a special status in development strategies and programmes. The 'Sustainable Development Strategy of **Latvia** until 2030', considers the country's main towns and cities to be 'Development Centres of national importance'. These are eligible for certain types of regional aid and support programmes and in the period 2012-20 will have special attention within the national regional policy framework.<sup>33</sup>
- Third, over the past 18 months, new, dedicated instruments and funds have been launched to emphasise the role of cities in development. A new Innovative Cities programme (INKA) in **Finland** will seek to foster the development of large city-regions as innovation hubs and sources of economic growth. The stronger emphasis on localism in the **United Kingdom**<sup>34</sup> (England) includes plans for a new round of City Deals which devolve substantial funding for economic development to the eight economically most important cities outside London over a 10-year period.<sup>35</sup> The city-region has also increasingly been a policy focus in Scotland, where, in 2011, the Scottish Government published an *Action Plan for Cities*, which aims to support growth and effective 'place making', supporting Scottish cities to capitalise on investment opportunities.<sup>36</sup>

### **4.3.4 Developing targeted approaches for specific geographies...**

In different parts of Europe, efforts continue to match regional policy interventions to territories with specific geographical characteristics. Particular forms of geographical targeting include a focus on

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<sup>33</sup> National Development Council (2010) *Sustainable Development Strategy of Latvia until 2030* (accessed 26 April 2013) pp. 61-89, [http://www.latvija2030.lv/upload/latvija2030\\_en2.pdf](http://www.latvija2030.lv/upload/latvija2030_en2.pdf) (accessed 13 August 2013).

<sup>34</sup> Michie R and Ferry M (2013) The Changing Landscape of Regional Policy Governance in the UK: regional policy developments in the United Kingdom, 2012-13, Chapter 30 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>35</sup> HM Treasury (2013) *Investing in Britain's Future*, Cm 8669, June 2013, p. 58.

<sup>36</sup> Scottish Government (2011) *Scottish Cities: Delivering for Scotland*. <http://www.scotland.gov.uk/Resource/Doc/365367/0124252.pdf> (accessed 5 July 2013).

islands and mountain areas. In **Cyprus**, an Island Plan is currently in the pipeline in order to strengthen the integration of regional policy within development policy across all territories. As part of a wider approach of fine-tuning in the treatment of different regions and their specificities, a special strategy for mountainous and rural areas is being developed in **Switzerland**.

#### 4.4 Institutional management of policy

Approaches to the institutional management of regional policy have evolved significantly in a number of countries in recent years, although there are also countries (e.g. **Germany**) where institutional arrangements are stable. Table 3 provides an overview of organisational changes over the past 18 months. The following sub-sections identify a range of processes, responding to the challenge of policy coordination and performance management in the current climate.

**Table 3: Organisational changes affecting responsibilities for regional policies**

Country	Organisational changes affecting responsibilities for regional policies
BG	2013: Ministry of Regional Development and Public Works transformed into Ministry of Regional Development; activities related to land-use planning and building control delegated to newly created Ministry of Investment Design in charge of development of (EU) infrastructure projects.
CY	Forthcoming: decentralisation of powers to local authorities; reduction in the number of municipalities (250 to be merged into 40) in line with Economic Adjustment Programme.
CZ	Act on Regional Development Support (2000) under review to update the roles of the main actors in regional development and Cohesion policy implementation (notably the main coordinator).
EE	Plans for administrative reform foresee mergers of 226 local governments into around 30-50 municipalities around regional hubs.
FI	Shift of responsibility for rural development policy from Ministry of Agriculture and Forestry to Ministry of Employment and Economy's regional development unit; local government reform by 2015.
FR	2013/14: DATAR transformed into General Commissariat for Territorial Equality (CGET); creation of High Council for Territories; decentralisation of parts of Structural Funds management (ERDF) and competences of regional authorities in the fields of economic development, business aid and training.
HR	Role of Ministry of Regional Development strengthened; National Agency for Regional Development established as main entity in charge of implementing regional policy.
HU	Responsibility for supervising NSRF implementation allocated to new State secretary in Prime Minister's Office; creation of a new National Development Government Committee as main decision-making body relating to EU funding; role of Cohesion policy Managing Authority (NDA) under review; regional and county development councils replaced by consultative fora.
IE	Administrative reform planned for 2014 to increase efficiency and cut costs: 144 local authorities to be replaced with 31 integrated authorities; number of Regional Assemblies to be increased from two to three; County Enterprise Boards transferred to Local Enterprise Offices.
IT	Establishment of dedicated coordinating agency based in Department for Economic Development and Cohesion (DPS); identification of general lines of direction and rules which cannot be negotiated; and, strategic co-project design initiatives launched by the central State.
NL	Ministry of Economic Affairs (MEZ) carries overall responsibility for coordination and implementation of Top Sector interventions; responsibility for each Top Sector assigned to individual ministries in line with thematic relevance; higher-level structures under evaluation, results expected to lead to further integration and rationalisation of DG structures; continued decentralisation.
PL	Increased powers of Minister for Regional Development by integrating responsibility for regional development, land use and urban policy issues to improve policy coherence, introduce coordinated spatial development policy objectives, and facilitate more integrated approach to strategic planning of programmes co-financed by EU funds; new Department of Spatial Planning established in Ministry for Regional Development.
PT	Following ministerial reshuffle in April 2013, Ministry for Regional Development has overall responsibility for coordination of regional development policy, including EU Cohesion policy.
RO	Following elections in Dec. 2012: reorganisation of ministry responsible for regional policy to become Ministry of Regional Development and Public Administration; creation of Consultative Council for Regionalisation and Inter-Ministry Technical Committee for Regionalisation-Decentralisation; autumn 2013 referendum on changes to the Constitution, incl. on administrative status of NUTS 2 regions.

...contd.

Table 3 contd..

SK	Ministry of Transport, Construction and Regional Development responsible for regional policy and regional development, but tasks of Cohesion policy coordination and management shifted to Office of Government in July 2013; new government advisory body for EU Cohesion policy; changes planned in roles of Central Coordinating Authority (CCA) (expected to play stronger role in Cohesion policy coordination in 2014-20).
SI	Abolition of Government Office for Local Self-Government and Regional Policy (responsible for EU Cohesion policy design, coordination and implementation and domestic regional policy); tasks taken on by Ministry of Economic Development and Technology; 2012 amendments to Balanced Regional Development Act to enable merging Slovenian Regional Development Fund with Slovene Enterprise Fund, abolishing Council for Territorial Coordination of Development Initiatives, strengthening role of municipalities in regional development councils, and abolishing requirement of public ownership of regional development agencies.
SE	In many regions, responsibility for regional development is being transferred to the county councils either from existing Municipal Cooperation Bodies or County Administrative Boards.

#### 4.4.1 Institutional change - coordination at central level

An important theme in a number of countries is the role of central authorities in coordinating regional policy, and the response of central governments to the challenges of coordinating regional policies in different national contexts.

- Long-established mechanisms for coordinating national and regional contributions to regional policy exist in countries such as **Germany**, where the coordination structures of the Regional Joint Task (*Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'*) have been in place since 1969 and include constitutionally-based federal/*Land* committees and mutually-agreed legal policy frameworks setting core eligibility rules, funding allocations and area designation. Within these frameworks, each *Land* can introduce tailored approaches to address its own specific priorities and problems.
- A strengthening of national level coordination and the reorganisation of national-level responsibility for regional development policies is taking place in **Italy**. This involves the establishment of a national Agency for Territorial Cohesion; strategic project design initiatives launched by the central State; and, prospectively, an increased role of national-level administrations in the management of programmes. Similarly, in **France**, current debate on the future of regional policy is directly related to the changing role of DATAR (*Délégation Interministérielle à l'Aménagement du Territoire et à l'Attractivité Régionale*). DATAR is a central government body attached to the Ministry for Housing and Territorial Equality, which is charged with coordinating territorial development policies. Based on a February 2013 government report, steps are being taken to transform DATAR into a General Commissariat for Territorial Equality (*Commissariat Général à l'Égalité des territoires*, CGET). The report sets out potential scenarios for the future of the CGET, which include a stronger emphasis on the role of the CGET in agreeing contracts with the regions as part of a broader decentralisation process. The report also proposes a stronger role for CGET in analysis, foresight or impact assessment, in line with an increasing focus on efficiency and accountability. A more prominent role in strategic coordination and steering is also discussed, reflecting efforts to increase policy coherence across different ministries. Concerns with administrative costs and value for money are also evident: the report notes that the creation of the CGET should not increase public expenditure; and that territories must have the necessary capacities to fulfil their responsibilities.

- The focus on central-level coordination can also have a sectoral focus. The coordinating role of the Ministry of Regional Development in **Poland** has been strengthened by integrating responsibility for regional development, land use and urban policy issues under its remit. In **Finland**, there has been a recent shift in responsibility for rural development policy from the Ministry of Agriculture and Forestry to the regional development unit of the Ministry of Employment and Economy. The aim of the merger is to better integrate rural issues with regional development measures.
- A further reason for strengthening central coordination, particularly in Central and Eastern Europe, is the need to ensure the efficient implementation of regional policy in alignment with Cohesion policy. A new government advisory body for EU Cohesion policy has been established in **Slovakia**, namely the Council of Government of the Slovak Republic for Partnership Agreement for 2014-20. It has the role of a coordinating, advisory and initiating body for EU Cohesion policy issues on behalf of the Slovak government. It is chaired by the Prime Minister, and participants include relevant ministers and representatives of local and regional authorities, as well as socio-economic partners. In **Hungary**, the coordination of domestic regional policy and Cohesion policy has been strengthened as the National Development Ministry (NDM) is now responsible for regional development and for supervising the Cohesion policy Managing Authority (the National Development Agency, NDA). These changes are aimed at accelerating implementation and the absorption of Cohesion policy funds. The coordination role of the central level is also being strengthened in Hungary through the centralisation of policy responsibilities previously held at sub-national levels. Recent institutional change at the central level in **Slovenia** has followed the election of a new government in 2012. The Government Office for Local Self-Government and Regional Policy, which was previously responsible for the design, coordination and implementation of EU Cohesion policy and domestic regional policy, was abolished and its tasks were taken on by the Ministry of Economic Development and Technology.

#### **4.4.2 Vertical coordination - contracts, networks, fora.....**

A key challenge for regional policy in a number of countries is seen in terms of how to promote decentralisation or regionalisation while strengthening central coordination. Approaches vary to the goals of guaranteeing the active involvement of sub-national tiers, deepening the information base for policy design, and strengthen ownership of, and commitment to, regional policy.

First, national-regional contracts are being used in some countries with a view to strengthening vertical coordination and ensure the agreement and compliance of other authorities (see Table 4). This focus on contractual arrangements can be interpreted in part as a way of strengthening the management of regional policy in a multi-level system. In **France** and **Poland**, contracts are important as sub-national levels assume more powers. As noted above, in **France** the proposed transformation of DATAR into CGET reflects efforts to renew partnerships with sub-national authorities in the context of a new phase of decentralisation. New bills being discussed in Parliament aim to confirm regional authorities as policy-leaders in the fields of economic development and business aid and as managing authorities in Structural Funds programmes. In this context, the State-region project contract negotiated in each region (*Contrat de projet Etat-région*, CPER) will continue to play an important part in vertical coordination. A new generation of territorial contracts is being negotiated in **Poland**. These consist of an agreement between the government and regional self-government authorities, through which regions receive State funding for capital investments.

Where funding is limited there can be an increased emphasis on controlling how it is spent, particularly where it is channelled through systems of multi-level governance. For instance, recent cuts in national budget allocations to regional councils in **Finland** have concerned non-binding funding which is used at the discretion of the regional authorities, in contrast to binding funding which is set aside for special programmes such as the Centres of Expertise and which has remained largely unchanged. The government has also established growth agreements with large city-regions, universities and business development companies to foster the development of large city regions as a source of economic growth. Contractual arrangements can also have a specific thematic or territorial focus. In **Italy**, Development Contracts play a role in the economic development of specific territories. They take the form of agreements between one or more firms, the agency Invitalia, the Ministry for Economic Development and possibly other national or regional authorities, and have the aim of furthering the economic development of a particular area. In addition, a new instrument, the Institutional Development Contract, was established in August 2012, to support major infrastructure projects (mainly) in the Mezzogiorno. In the **United Kingdom** (England), Local Enterprise Partnerships (LEPs) have been asked to develop new strategic multi-year plans for local growth, which will form the basis for negotiated Growth Deals as a basis for allocation of a new a Single Local Growth Fund (SLGF). These are expected to be linked to Enterprise Zones and City Deals.

**Table 4: Contractual arrangements and agreements in regional policy**

Country	Contractual arrangement
France	State-region project contract negotiated in each region between the regional préfet
Finland	Growth agreements with large city-regions, universities and business development
Italy	Development Contracts between firms, development agency and public authorities in specific territories; Institutional Development Contract supports major infrastructure projects (mainly) in the Mezzogiorno
Poland	Territorial contracts negotiated between State and regional governments, covering domestic and EU funding
United Kingdom	LEPs developing multi-year plans for local growth as basis for negotiated Growth Deals, linked to Enterprise Zones and City Deals.

Alternative, less formal means of strengthening coordination and control are also being pursued, based on discussion or exchange of knowledge (see Table ). For instance, this can involve the establishment of regional or local networks that include the participation of State-level teams. In the **Netherlands**, the Regional Spatial Strategic Agenda includes the establishment of networks with centrally-appointed Regional Ambassadors to coordinate regional and central government and to guarantee a regional dimension to crisis management. Local Growth Teams in the **United Kingdom** (England) will help deploy central government resources to support the LEPs. In **Portugal**, the NSRF Observatory and the Regional Dynamics Monitoring Observatories of the Regional Development and Coordination Commissions have undertaken territorial foresight analyses (so-called 'territorial zooms') to monitor the territorialisation of key sectoral policies. Its work has highlighted the importance of networks and platforms for effective institutional consultation and the need to address weaknesses in the organisational capacity and competences of the network partners. A National Network of



Territorial Partnerships will be created in to support regionally- and locally-based economic and social development initiatives, comprising municipalities, inter-municipal communities, higher education and business associations. In addition, funding is being made available for the development of territorial strategies to inform the 2014-20 round of Cohesion policy programmes. The establishment of discussion platforms or deliberative fora to exchange knowledge and inform policy is also underway elsewhere in Europe. This collaborative approach is being confirmed in **Austria**, not only by the extension of the STRAT.AT platform into the 2014-20 period, but also by the emphasis on collaborative 'Implementation Partnerships', consisting of sectoral actors at different spatial levels, in the domestic spatial development concept ÖREK. New initiatives in **Sweden** to improve coordination include the establishment of platforms and arenas for cooperation, involving national and regional actors and focusing on cooperation with other sectoral policies. A prominent example of this are the competence platforms set up in each county to strengthen cooperation on regional skills supply and educational planning.

**Table 5: Coordination through networks**

Country	Networking arrangement
Austria	STRAT. AT and Implementation Partnerships
Netherlands	Regional Spatial Strategic Agenda includes establishment of networks with centrally-appointed Regional Ambassadors
Portugal	Role of regional territorial fora, National Network of Territorial Partnerships being established
Sweden	County-level Competence Platforms
United Kingdom	Local Growth Teams, with State participation

#### **4.4.3 Sub-national reforms aim to build capacity...and/or cut costs...**

Reform of regional or local authorities is on the agenda in a range of countries and this can have implications for regional policy delivery. In some cases, these reforms include the merger of municipalities to match the changing geographical focus of development policy, to create larger, more efficient units with more capacity for equitable service provision (e.g. **Finland**, **Slovenia**). In other cases it involves the decentralisation of more powers to sub-national levels.

- Regional policy is a devolved responsibility in the **United Kingdom**. The four constituent parts of the UK are free to choose their own economic development policy mix, and have done so in economic strategy frameworks published in 2010-12. The devolution of further responsibilities is underway, particularly in relation to the capacity of the sub-national administrations to borrow for current and capital expenditure purposes. Through the on-going implementation of the Scotland Act 2012, new borrowing powers will be made available to the Scottish Government in 2015-16 to support infrastructure investment.
- One of the most important problems facing the governance of regional policy in **Cyprus** is seen as the inadequate capacity of local actors to participate effectively in the design and implementation of place-based strategies. Regional policy is fully centralised, and with the exception of the four main urban areas, local authorities lack the capacity (economic, knowledge, experience, human resources) to implement actions and measures effectively. Changes are also

being planned through the forthcoming reform of local government legislation and the decentralisation of powers to the local authorities.

- In **Greece**, the Kallikratis Plan requires a significant reduction in the number of municipalities, replacing prefectures and counties with 13 directly elected regions and established 7 decentralised regional administrations. Municipalities and elected regions are now responsible for preparing 5-year operational programmes incorporating local and regional development strategies.
- **Ireland** is preparing for a comprehensive administrative reform in 2014 aimed at improving efficiency and cutting costs. The existing 144 local authorities will be replaced with 31 integrated authorities.
- In the **Netherlands**, a process of decentralisation of tasks from central government to regions and municipalities is underway.
- Major debates in **Romania** are taking place on regionalisation/decentralisation following the election of new government in December 2012, with a review of the tasks of central and local governments.

#### **4.4.4 Coordinating regional policy with sectoral policies**

Several countries are developing frameworks to improve the strategic coordination of regional policy with sectoral policies, with the aim of improving effectiveness and efficiency. A key question is how the commitment of different sectoral ministries to regional development strategies can be guaranteed, particularly where regional policy funding is limited and sectoral ministries are traditionally strong. For instance, in the **Czech Republic**, sectoral ministries are required to respect the needs of designated regions in the preparation and implementation of sectoral strategies but this is often carried out only formally and the impact on regional development is variable. Similarly, sectoral ministries in **Estonia** are responsible for analysing their policies from a regional development viewpoint and coordinating related issues with the Ministry of Regional Affairs but, in practice, regional policy has little impact on the preparation or development of other policies.

Recent initiatives in **Switzerland** and **Finland** are also addressing this coordination challenge:

- Efforts to integrate regional policy in **Switzerland**<sup>37</sup> with other policies have been underway since 2008. There is a strategic pillar in the country's New Regional Policy (NRP) dedicated to cooperation and synergies with sectoral policies. However, recent evaluations have highlighted that coordination efforts should be intensified, for instance on innovation, tourism and agriculture, as well as with regard to agglomeration policy.
- In **Finland**, sectoral ministries are required to develop regional strategies that set out the ministry's regional development objectives and measures. However, although the strategies are still in use, there are plans to discontinue this approach. A new Act on Regional Development is expected for the start of 2014 and this is likely to stipulate that ministries should instead be involved in the development of more focused priorities for regional policy with a view to improving effectiveness and strategic orientation.

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<sup>37</sup> Kah S (2013) Five Years of NRP: regional policy developments in Switzerland, 2012-13, Chapter 29 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

A further concern is the strategic integration of explicit regional policies with sectoral policies that have territorial impacts. This is reflected in the recent launch of territorial development concepts or spatial development strategies, which have some defining characteristics:

- First, they are concerned with *medium to long-term development processes* often stretching over 15-20 years. For instance, **Poland's** National Spatial Development Concept covers the period to 2030.<sup>38</sup> It outlines spatial policy priorities, sets out the conditions for the institutions and instruments of policy implementation, and contains conceptual objectives for individual regions.
- Second, these spatial strategies are characterised by a *focus on territorially balanced development*, sometimes in the face of accelerating mono-centric development and entrenched territorial disparities. Increasing territorial imbalances was a significant driver in the publication of **Bulgaria's** National Concept for Spatial Development (NCSD), which was elaborated and approved in 2012.
- Third, common to these spatial strategies is their '*overarching*' character. On the one hand, this serves to link central government policies to the regions and highlights the need for efficiency and coordination at a time of limited resources. In the **Netherlands**,<sup>39</sup> the 2012 Regional Spatial Strategic Agenda (RRSA), which was re-evaluated and confirmed in March 2013, has a clear coordination role.<sup>40</sup> At the same time, these strategies perform the function of 'spatial-proofing': ensuring that the territorial dimension is taken into account in the design and delivery of sectoral policies and national and regional programmes. The Spatial Concept **Switzerland** was formally adopted in December 2012 and is intended to be a guidance framework for all spatially-oriented activities.
- Finally, often there is also a particular *focus on physical planning coordination* between the regional development programmes and physical planning, aiming to integrate regional development initiatives with the general plans of municipalities which often have important responsibilities for issues such as the use of land and water areas, and how the built environment should be developed and maintained. In **Sweden**,<sup>41</sup> the Planning and Building Act (SFS 2010:900) of 2011 provided the impetus for this coordinated approach.<sup>42</sup>

#### 4.5 Focus on evaluation in policy governance

The role of evaluation in improving the efficiency of regional policy is taking on increased importance in the context of the crisis. The need to assess and improve the performance of policy instruments and programmes and to strengthen the evidence base for the design of future programmes is accentuated where the regional challenge is growing and where policy funding is constrained. This section reviews the strengthening role of evaluation in national regional policy systems as part of the increased emphasis placed on the management and impact of regional policy (see Table ).

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<sup>38</sup> Ministerstwo Rozwoju Regionalnego (2012) *Koncepcja Przestrzennego Zagospodarowania Kraju 2030*.

<sup>39</sup> Van der Zwet A and Bachtler J (2013) Developing a Regional Dimension for National Sectoral Policy: regional policy developments in the Netherlands, 2012-13, Chapter 20 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>40</sup> MEZLI (2012) *Regionale en Ruimtelijke Strategische Agenda van EL&I*, Opgesteld door de directie Regio en Ruimtelijke Economie, DG Natuur en Regio, Ministerie van Economische Zaken, Landbouw & Innovatie, Den Haag, 29 March 2012 (mimeo).

<sup>41</sup> Vironen H (2013) Growth Through Attractive and Competitive Regions: regional policy developments in Sweden, 2012-13, Chapter 28 in *Regional Policy Developments in Europe: Country Reviews 2012-13*, EoRPA Paper 13/2, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>42</sup> SFS 2010:900, Plan och bygglag.

#### **4.5.1 Evaluation already central to regional policy in some cases...**

Evaluation is a well-established component of the policy process in a number of countries and continues to be used for regional policy management and accountability, feeding into adjustments of ongoing interventions and informing future plans. In countries such as Austria, Germany, Sweden and Switzerland, the importance of regional policy is explicitly recognised and recent studies are informing policy-making.

- Evaluations in **Austria** have become important instruments for ensuring policy efficiency, not least due to evaluation requirements in connection with the provision of EU Cohesion policy funding. Following EU accession, the Checkpoint EVA platform was set up as part of evaluation capacity-building activities. This framework for the exchange of experience has been developed over time and it is now fully integrated into the domestic policy system as part of the STRAT.AT structure. The 2012 Strategic Report's assessment of physical progress is broadly positive, and it identified 'good to very good implementation progress across all funding programmes'.
- In **Germany**, there is a strong focus on impact evaluation and developing new evaluation methodologies in the context of the Regional Joint Task, with recent evaluations focusing on the impact of regional investment aid in general, as well as regional aid to large businesses in particular. Methodological considerations are also underway in relation to the best approaches for assessing the impact of regional policy investments in business-oriented infrastructure.
- In **Switzerland**, the State Secretariat for Economic Affairs (SECO) recently undertook an evaluation of the multi-annual NRP programme for 2008-15 and it draws a broadly positive conclusion.

#### **4.5.2 Influence of EU frameworks on evaluation systems...**

In the EU Member States of Central and Eastern Europe, efforts are also underway to strengthen the role and capacity of evaluation systems. This is driven by Cohesion policy evaluation requirements but there are also moves to extend the role to other domestic policies.

- In **Poland**, the National Evaluation Unit (KJO) in the Ministry of Regional Development will in future be responsible for coordinating the evaluation of all development policies (i.e. not just Cohesion policy).
- Due to the importance of Cohesion policy funds in **Bulgaria**, a domestic evaluation model of the national economy (SIBILA) was developed in 2012. Assessments using the model show that Cohesion policy investments up to the end of 2011 contributed to 55 percent of annual GDP growth in 2011.<sup>43</sup>

#### **4.5.3 Status of evaluation reinforced by constrained funding..**

In other parts of Europe, the role of evaluation in regional policy is being strengthened as a response to budget constraints.

- For example, in **France** the limited data available to determine the value for money of regional policy instruments is a concern. The Audit Court has recommended improving evaluation via a review of the current approach to measure policy performance. In addition, the government has

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<sup>43</sup> For more information, see <http://www.eufunds.bg/document/3422> (accessed 12 August 2013).

committed to making greater use of evaluations as part of its broader effort to increase policy effectiveness through the Modernisation of Public Policies (*Modernisation de l'action publique*, MAP) initiative launched in 2012 (see also Section 4.6).

- Cuts in the allocation of funding to the State's regional ELY-centres in **Finland** are accompanied by the requirement that they conduct increasingly careful evaluations of measures.

**Table 6: Factors explaining emphasis on evaluation**

Country	Factor
Austria	Checkpoint EVA platform under Cohesion policy. Now fully integrated into the domestic policy system as part of the STRAT.AT structure.
Bulgaria	Domestic evaluation model for national economy (SIBILA) developed due to the importance of Cohesion policy funds.
Finland	Focus on evaluation linked to funding cuts (e.g. in the State's regional ELY-centres).
France	Audit Court emphasises evaluation for policy performance, value for money. Government committed to evaluation as part of broader Modernisation of Public Policies initiative.
Germany	Regional Joint Task focus on impact evaluation and developing new methodological approaches.
Poland	Cohesion policy prompts evaluation focus but influence spreading to domestic policy

#### ***4.5.4 Evaluation increasingly perceived to be important but remains challenging...***

Despite its strengthening role, there are significant challenges to establishing evaluation as part of a model for measuring and improving regional policy performance (see also Section 4.6). There is widespread recognition that the evaluation of broader regional policy measures (including programme-based approaches) is especially challenging. In particular, there are difficulties in moving beyond process issues and outcomes to consider policy impacts and the implications for policy design. For instance, this is seen as a weakness of the evaluation system in **Spain**. The quality of evaluation processes and outputs is paramount to the credibility and thus usability of the evaluations. Several countries are continuing to work on different methodologies to address this challenge, including piloting studies, case studies and developing ways of assessing the 'counterfactual' situation, with a particular emphasis on impact evaluation and on identifying, measuring and aggregating different types of gross effects. In **Italy**, authorities plan to strengthen evaluation methodologies, particularly in impact evaluation focussed on the effects on quality of life and opportunities for firms. In countries such as **Sweden**, there is a growing emphasis on 'meta evaluation' where evaluation studies attempt to match the complex linkages between interventions in multi-level policy systems. Nevertheless, in several countries these methodological challenges are sometimes reflected in weak or contradictory evaluation results.

- In **Greece**, evaluations seem to agree on the finding that the Structural Funds and public investments have had a positive impact on regional development. However, these benefits are not spread in the same manner between regions, and it cannot be determined whether funding has led to the reduction of disparities between more-developed and less-developed regions. The findings also appear to be affected by the geographic scale of analysis.

- In **Latvia**, the impact and ‘value for money’ of regional policy appears to be uncertain, with divergent and contradictory results from different evaluations.

## **4.6 Regional policy funding**

The global economic crisis continues to have a significant impact on the regional policy budgets of many European countries. This impact is evident in the contribution of State budgets to regional development. In several countries, national regional policies have experienced significant cuts in funding, although this has not been universal. In some cases, the crisis is also affecting the capacity of sub-national bodies to participate in regional policy as they are now operating in a constrained fiscal environment. Regional and local authorities must balance obligations in the provision of public services and basic utilities with contributions to new regional development initiatives. In this context, Cohesion policy provides a stable source of regional policy funding. It accounts for majority of support for regional development in many southern, central and eastern European countries. However, a key issue is the requirement that Cohesion policy interventions be co-financed by Member States. This directly affects national expenditure commitments and the capacity for regional policy spending that is not tied to EU Cohesion policy. Combined with the reallocation of domestic policy budgets this is contributing to the decline of national regional policy systems in some countries. The following section reviews trends in the funding allocated to regional policy, which in many cases has been the fundamental driver of wider regional policy change.

### ***4.6.1 The crisis is affecting regional policy budgets***

Over the past 18 months, public expenditure constraints have had a significant impact on regional policy budgets across Europe. In many cases, regional policy funding has been reduced substantially as part of broader cuts in public expenditure (see Table 4).

- In **France**, regional policy expenditure dropped by 9.2 percent between 2011 and 2012, through a reduction in project commitments under the PAT scheme. This is in line with the national 10 percent target for cuts in public expenditure. The budget line dedicated to territorial development has seen a decrease in 2013 due to budget constraints, implemented by deferring the funding of some of France’s multi-annual instruments.
- Domestic fiscal policy in **Hungary** has seen significant constraints since 2009, leading to a significant reduction in national budget allocations for regional development. National support for regional development from the central budget has fallen by over 90 percent since 2009.
- Funding for both of **Spain’s** major domestic regional policy instruments has been cut back severely. The allocation for the Regional Investment Grant in 2012 was less than one-third of the 2007-10 average and annual average funding for the Inter-Territorial Compensation Fund in the period 2011-13 is almost half the 2007-10 average.
- **Italy’s** budget allocation for the Fund for Development and Cohesion FAS (FSC-FAS) has been cut by almost a third since 2008. Further, taking stock of the co-financing difficulties experienced by Italian authorities in charge of Cohesion policy programmes, the Cohesion Action Plan (PAC), based on an agreement between the Italian Government and the European Commission, reduces the domestic co-financing rate of the programmes for the Convergence regions and Sardinia (and thus the total amount of resources of these programmes). According to the PAC, the domestic resources ‘saved’ in this way should still be spent in the same regions, but this would be over a longer time horizon than that of the 2007-13 programmes.

- In **Finland**, domestic regional development funding has decreased over recent years with reductions in funding allocated both to regional councils and to the State's regional authorities, the Centres for Economic Development, Transport and the Environment (ELY-centres).

**Table 4: Countries experiencing reductions in regional policy funding**

Country	Funding being reduced
<b>Finland</b>	Reductions in funding allocated to regional councils and the Centres for Economic Development, Transport and the Environment
<b>France</b>	Reduction in project commitments to regional aid PAT scheme, in line with national 10 percent target for cuts in public expenditure.
<b>Hungary</b>	Support for regional development from the central budget has fallen by over 90 percent since 2009, due to fiscal constraints.
<b>Italy</b>	A third of budget allocation for the Fund for Development and Cohesion FAS (FSC-FAS) cut since 2008, PAC agreement with Commission eases co-financing pressures and releases some funds.
<b>Spain</b>	Allocation for Regional Investment Grant, Inter-Territorial Compensation Fund cut.

#### 4.6.2 Funding cuts are not universal

The significant reductions in regional policy budgets experienced in several countries have not been universal (see Table 5).

- First, there are cases where regional policy budgets have remained stable or even increased, as a result of *improving economic conditions*. For example, the fiscal situation in **Latvia** has improved over the past 18 months and on the basis of this the government has allocated extra funds for co-financing Cohesion policy activities for regional socio-economic development. It has also provided extra funding from the national budget to the underdeveloped municipalities and territories with low tax income, with some extra funding in 2013 being allocated even outside the traditional Financial Equalisation Fund framework.
- Second, funding has also been increased, at least temporarily as a response to *the impact of the crisis in some territories*. Total regional policy funding in **Sweden** has remained stable and regional development expenditure is set to increase slightly over the next year, targeting regions where the impact of the crisis has been most severe. In **Germany**, funding allocations to each Land in the GRW framework was temporarily increased in 2009-11 as the federal government's fiscal stimulus package of November 2008 allocated an additional €180 million to the GRW for a Special Programme (*Sonderprogramm*). Moreover, although the overall trend over the past decade has been one of declining regional policy funding (due largely to the improved situation of the eastern *Länder* and the very high level of funding allocated to these *Länder* following reunification), the federal government is committed to maintaining significant funding for the GRW. Nevertheless, discussions on the future of the Regional Joint Task suggest that the division of funding between eastern and western *Länder* in 2014-20 is likely to change in 2014-20, with less funding being earmarked for the eastern *Länder*, although funding will in future continue to be concentrated on structurally weak regions

- Third, *regional policy budgets are 'ring-fenced'* in countries where regional policy instruments are attached to multi-annual programming arrangements, contracts or agreements. Here the impact of the crisis on funding has been limited. As noted above, although there have been recent cuts to regional policy expenditure in **Finland**, this has related particularly to the non-binding funding which is used freely by the region. 'Ring fenced', binding funding set aside for special programmes such as the Centre of Expertise, where the funding levels have remained largely unchanged. In **Denmark**, all central State funding for regional development is routed through the regional growth fora and a condition of the reform process that established them was that the aggregate level of expenditure on regional economic development should remain broadly the same. The aggregate budgets and the distribution between regions have remained relatively stable despite the advent of the financial crisis.

**Table 5: Countries where regional policy funding is stable or increasing**

Country	Funding being safeguarded or increased
<b>Denmark</b>	Funding channelled through regional growth fora guaranteed and protected as condition of the reforms that established them.
<b>Finland</b>	Some funding cuts but support for specific instruments 'ring fenced' (e.g. Centres of Expertise).
<b>Germany</b>	Funding allocations in GRW framework temporarily increased in 2009-11 in government's fiscal stimulus package but overall trend is declining funding.
<b>Latvia</b>	Extra funding for domestic regional policy instruments and Cohesion policy co-financing due to improving economic conditions.
<b>Sweden</b>	Regional development expenditure stable and set to increase slightly targeting regions where the impact of crisis is severe

#### **4.6.3 Cohesion policy funding is influential in some countries**

In several countries, the role of Cohesion policy in funding regional policy has been accentuated as a result of the economic crisis. This applies particularly to member states from southern Europe and central and Eastern Europe. In EU12 Member States, Cohesion policy remains a crucial and in many cases dominant source of stable, medium-term funding for regional development. However, a key issue in this context is the requirement that Cohesion policy interventions are co-financed by Member States. This directly affects national expenditure commitments and the capacity for regional policy spending that is not tied to EU Cohesion policy. Combined with impact of the crisis, domestic budget cuts and the reallocation of funds away from regional policy instruments, national regional policy systems have in some cases, declined.

- In the **Czech Republic**, national regional policy has weakened in recent years. Following an extensive screening to identify national programmes that might overlap with EU Cohesion policy, many national programmes were discontinued and financial resources were reoriented to co-finance Cohesion policy programmes. This process has been exacerbated by extensive public budget cuts and reallocations of funding away from State support programmes.
- In other cases, greater care is taken in allocating funding, for example in **Romania**. In order to use public funds more efficiently, the 2013 National Programme for Local Development is financed solely within the limits of the funds approved by the Ministry for each of the sub-



programmes, and approved annually within local budgets and other legal sources – the previous programme provided the option to use constructors' own resources which subsequently had to be reimbursed by the State.

## 4.7 Regional policy instruments

The decline in the use of traditional aid instruments is a long-term trend, which has been reinforced over recent years. When looking at recent change it is noticeable that the future of specific aid schemes is being debated based on fresh evaluation evidence in a number of countries. However there are also countries that still use aid schemes as an essential part of their policy mix to target problem areas. In addition, medium-term developments, such as the economic crisis, are leading to reappraisals of such instruments, which can offer targeted solutions to deteriorating economic situations at the sub-regional level. However, there are instances where the absorption of funding is hampered due to budget constraints and lacking capacity. A further question relates to effective alternatives available to replace traditional aid instruments.<sup>44</sup>

### 4.7.1 *Traditional regional aid instruments continue to decline in importance*

Traditional regional aid instruments have been under review for some time. While in some countries regional investment aid was downgraded many years ago (Denmark, Italy, Sweden), more countries have moved away from long-standing national regional policy aid schemes over recent years. In 2010/2011, the Netherlands discontinued the Investment Premium, England saw the abolition of the Grant for Business Investment and the Welsh Single Investment Fund (SIF) was reallocated to infrastructure projects and a number of key sectors. Among the reasons are efforts to save costs as well as reductions in award rates and assisted area coverage, which have made them less significant.

A further reason for phasing out aid instruments is linked to perceptions of their effectiveness. The Investment Allowance tax relief scheme operating in **Germany** will be closed at the end of 2013, primarily because of positive developments in the eastern German economy in the 2000s, but also because of concerns over the instrument's effectiveness. This shift has been under discussion since the early 2000s and the closure of this instrument is not causing serious concern to regional policy-makers. In both Finland and France, recent surveys of regional aid measures have found limited impact. However, political debates surrounding the instruments show that regional aid still matters in some countries.

- In **France**, a meta-study on the effectiveness of business aid identifies systemic issues with a range of aid instruments. It points to the proliferation of measures, insufficient targeting on future-oriented, competitive sectors and inconsistent evaluation. The study recommends abolishing the main regional aid scheme (PAT), which had already been criticised by the French Court of Auditors in 2012. It also calls for an in-depth reform of priority areas.<sup>45</sup>

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<sup>44</sup> For a more detailed overview of selected regional policy instruments and recent change see: *Regional Policy Instruments in Europe: Comparative Tables 2012-13*, EoRPA Paper 13/3, European Policies Research Centre, University of Strathclyde, Glasgow, September 2013.

<sup>45</sup> Demaël J-P, Jurgensen P and Queyranne J-J (2013) *Pour des aides simples et efficaces au service de la compétitivité*, Rapport sur les interventions économiques en faveur des entreprises dans le cadre de la modernisation de l'action publique (MAP), <http://www.redressement-productif.gouv.fr/files/2013-M-016-02-A-Rapport+PJ.pdf> (accessed 20 June 2013).

- Recent studies in **Finland** suggest that business aid is inefficient and ineffective and may hamper the renewal of regional business structure, although it may have positive short-term effects.<sup>46</sup> Despite a critical review of the transport grant in 2012, its extension post-2013 was decided due to political pressure.
- Evaluation results have also been mixed in the case of **Sweden**. While regional investment aid has been found to promote economic performance, the impact of the transport grant was difficult to determine.<sup>47</sup> The effects of the social security concession on unemployment are also unclear.
- Targeted evaluation evidence in **Denmark** led to the discontinuation of a sub-measure of the Renewal Fund which, despite being able to provide rapid responses to specific local economic crises, was found to have limited impact.

Budget cuts also underlie the discontinuation of aid instruments. A recent example can be found in the **Czech Republic**, where support for the restructuring of former military areas, as well as funding for religious buildings and the Roma community were phased out in 2013.

#### ***4.7.2 Aid instruments are still valued, notably in times of crisis***

In contrast to countries abandoning traditional aid instruments, there are others which still see them as cost-effective means to improve the situation of businesses in lagging areas. First, in the case of **Norway**, evaluation evidence has shown that, compared to other instruments, narrow regional policy instruments have produced positive effects for more modest expenditure; similarly, the employers' social security concession has been an accurate way of targeting labour market support with minimal administrative cost.<sup>48</sup> A second example for positive evaluation findings is **Portugal**. Here, the key conclusion of a major counterfactual study of business aid schemes is that they had a positive impact on business performance, increasing the likelihood of firm survival and are associated with positive job creation impact – with particular benefits for weaker firms with limited financial capacity.<sup>49</sup>

It is also worth noting that in **Lithuania**, EU Cohesion policy has increased the scope to move away from tax-based incentives to subsidies or soft loans. Since 2004, the main forms of State aid provided have been grants, loans or guarantee schemes with the share of business grants accounting for nearly two-thirds of total State aid. In other cases, such as in **Italy**, aids to firms are still important, but increasingly only insofar as they are targeted at R&D&I. Among others, a new scheme was introduced in 2013 to support innovative start-ups in the Mezzogiorno through the 2007-13 Research and Competitiveness NOP ('Smart and Start').

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<sup>46</sup> Pietarinen M (2012) *Survey on State Aid*, MEE Publications, Innovation 7/2012.

<sup>47</sup> Tillväxverket (2011) *Uppföljning och resultatvärdering av regionala företagsstöd och stöd till projektverksamhet, Budgetår 2010*, Rapport 0091; Tillväxtanalys (2012) *Regionalt transportbidrag, En effektutvärdering med fokus på sågverksindustri*, Working paper 2012:17.

<sup>48</sup> *Effekter og effektivitet*, NOU 2004: 2, <http://www.regjeringen.no/nn/dep/krd/dok/nouer/2004/nou-2004-2/2.html?id=383678> (accessed July 2013).

<sup>49</sup> Observatório do QREN (2013) *Análise contrafactual dos impactos dos incentivos do POE/PRIME na sobrevivência e no crescimento das empresas, e+cadernos do Observatório do QREN*, [http://www.pofc.qren.pt/ResourcesUser/2013/Monitorizacao\\_Avaliacao/Relatorios/Analise\\_contrafactual\\_impactos\\_incentivos\\_empresas.pdf](http://www.pofc.qren.pt/ResourcesUser/2013/Monitorizacao_Avaliacao/Relatorios/Analise_contrafactual_impactos_incentivos_empresas.pdf) (accessed 18 September 2013).

**Table 6: Recent changes to policy instruments in response to the economic crisis**

Country	
<b>Finland</b>	<i>Areas undergoing structural change:</i> three additional regions designated in 2012/13; maritime industry as newly designated sector; additional funding (€15 million) to cushion effects of closure of military bases in 2013
<b>France</b>	<i>Reindustrialisation Aid:</i> Job creation thresholds lowered for large firms (investments over €50 million; creation of min. 100 jobs); support extended to projects safeguarding jobs and firms facing certain difficulties; introduction of a double ceiling of €100,000 per job created and €10 million per project.
<b>Greece</b>	<i>Investment incentives:</i> option for 100% (up from 50%) of grants to be allocated as advance payments; choice over mix of benefits (tax-relief/ grant) for investments up to €50 million to enhance flexibility for small/ medium-sized investors; tax-relief can be provided upfront; requirement for min. 25% own capital can be covered by using company liquefiable assets; increase in supported sectors; time limits on submission of investment plans abolished; one-year extension for completion of investment plans.
<b>Portugal</b>	<i>SME incentive scheme:</i> budget increases in 2011 and 2012; EU co-financing rate increased for participation in trade fairs and exhibitions; linkage to generic concept of innovation adjusted; extension of temporary amendments introduced in 2010; eligible expenditure extended to advisory services and innovation support without prior approval of service providers; consultancy services for newly-created companies via Entrepreneurship voucher. <i>Innovation and RTD incentive schemes:</i> budget increases in 2011 and 2012. <i>NEW – Incentive scheme for local micro-enterprises:</i> direct grants for investment and job creation (50% of eligible expenditure; higher rate for hiring young people); targeted at interior municipalities of mainland regions (excluding Lisbon); funding of €25 million for 2013.
<b>Slovenia</b>	<i>NEW – Emergency measures for Maribor and surroundings:</i> Programme for boosting competitiveness in 2013-18 (€32 million); refunds on social contributions paid by employers and tax breaks for employment and investments (€25 million); support for sustainable rural development (€3 million), guarantees with a subsidised interest rate for investment loans (€2.2 million), and R&D projects and new technological equipment (€4 million) in 2014/15.
<b>Wales</b>	<i>NEW – Wales Economic Growth Fund:</i> short-term measure to support projects stimulating economic growth and creating and/ or safeguarding employment, with a budget of around £30 million (€35.4 million) per annum.

Governments have also launched new aid schemes in 2012/13 in response to the impact of the economic crisis in particular localities, thus strengthening the importance of traditional measures (see Table 6).

- As part of efforts to find a more explicit territorial response to the crisis, specific locational problems faced in the interior of mainland **Portugal** (notably low-population density and out-migration) have received increased attention in 2012. This led to the establishment of a new incentive scheme to support investment and job-creation by micro-firms in these areas.
- The government of **Slovenia** adopted a set of emergency measures in June 2013 for Maribor and surrounding municipalities facing high unemployment. This mirrors approaches taken in support of the neighbouring Pomurje region and may be extended to other regions in future.

- **Wales**, which had abandoned its main regional aid instrument in 2010, introduced a new Wales Economic Growth Fund as a short-term measure in 2012/13 to support projects stimulating economic growth and creating and/ or safeguarding employment.

As in previous years, governments have continued to increase funding or to make aid more accessible related to the consequences of the crisis. Additional aid was made available in **Finland** to support of areas undergoing structural change. In **France**, job creation thresholds under the Reindustrialisation Aid scheme were lowered for large firms and support was extended to projects safeguarding jobs and firms facing certain difficulties. The Investment Incentives Law in **Greece** saw a further amendment in 2013 to improve liquidity, accelerate grant payment systems and strengthen transparency and audit procedures. In the case of the SME Incentive Scheme in **Portugal** the budget was increased in two consecutive years (2011 and 2012) and the temporary amendments introduced in 2010 were extended. There were also budget increases for the Innovation Incentive Scheme and the RTD Incentive Scheme.

#### ***4.7.3 Difficulties with aid take-up: budget constraints and capacity issues***

In several countries, the crisis has led to lower uptake and delivery of regional aid due to liquidity problems, sometimes with a detrimental impact on the overall effectiveness of aid measures.

- In **Portugal**, there have been challenges in delivering integrated measures under the PROVERE programme for low-density areas and the Cities policy for urban regeneration.
- While the availability of EU Cohesion policy resources ensures continuity in regional development support, the implementation of programmes funded from domestic funds in **Slovenia** is being hampered due to problems with business liquidity.
- In **Slovakia**, the fall in aid levels observed as a consequence of the crisis has had a negative impact on the capacity of investment aid to reduce regional disparities, instead contributing to the attraction of important business investors to more favourably located western regions.
- Demand for the Regional Investment Grant in **Sweden** has been lower due to the economic situation.

Ensuring that policy instruments target specific localities, while achieving critical mass, sufficient synergies and levels of demand, is challenging. In **Portugal**, for example, the needs of those involved in the PROVERE programme for low-density areas have been underestimated, notably with respect to information, technical and administrative capacity and capacity-building support. In **Hungary**, a recent evaluation found that relatively little funding flows into regions with insufficient capacities, among them regions with a high representation of Roma.<sup>50</sup> The lack of projects in these regions is often the result of limited capacity which in turn impedes development, institutional improvement and better service provision.

#### ***4.7.4 What are the alternatives?***

Countries which have reduced the role of traditional regional aid in the past have often introduced other approaches to business support. In Sweden, for example, direct grants have to some extent

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<sup>50</sup> Pannon Institute for Analyses Ltd, HÉTFA Centre for Analyses Ltd and Metropolitan Research Institute *Evaluation of developments serving Roma integration in the NSRF 2007-2013*, [http://www.nfu.hu/roma\\_integraciot\\_szolgalo\\_eu\\_s\\_fejlesztések\\_ertekelese](http://www.nfu.hu/roma_integraciot_szolgalo_eu_s_fejlesztések_ertekelese) (accessed 13 August).

been replaced by regulatory reform and investments in research and development activities. Discussions about alternatives to regional aid are currently taking place in some countries.

- The 2013 meta-study carried out to assess the effectiveness of business aid in **France** recommends replacing schemes run by the central government with measures promoting the business environment, notably by relaxing regulatory requirements and simplifying the tax system.
- One of the evaluation studies carried out in **Finland** argues that fiscal equalisation is the most effective instrument in reducing regional disparities.
- In **Scotland** Scottish Enterprise and Highlands and Islands Enterprise are working on a future strategy for supporting inward investors and indigenous companies in place of regional aid.
- Extensive discussions have been taking place in **Germany** on the orientation of the Regional Joint Task in 2014-20, including the question of whether changes are needed in the types of intervention funded (i.e. in addition to regional investment aid, funding for business-oriented infrastructure and support for different types of bottom-up initiatives). Options under consideration include the possibility of funding interest rate subsidies for business investment projects (in addition to the current grants and guarantees), as well as renewable energy and energy-efficiency projects, with a view to enhancing the alignment of the GRW with the Europe 2020 Strategy and Cohesion policy funding. Moreover, the German authorities have notified the European Commission about a series of proposed changes in GRW support for business-oriented infrastructure, with a view to gaining legal certainty on the details of the types of infrastructure support that could in future be granted under the GRW (e.g. in the context of State aid considerations).

#### 4.8 Questions for discussion

This overview of recent changes to regional policies in Europe has identified a range of issues that are on the current agenda of regional policymakers. Some are influenced by the EU context, notably preparations for the 2014-20 Cohesion policy period and new Regional Aid Guideline. At the same time, they are shaped by the role that regional policy plays in individual countries. In this context, key questions for discussion at the EoRPA meeting include the following:

- In a period of constrained public finances, how can governments respond effectively to uneven territorial development? What are the implications for the design and delivery of regional policy (e.g. in terms of objectives, geographical focus, institutional management and specific instruments)?
- Regional aid instruments have been under particular pressure in some countries. To what extent is there still a role for nationwide regional grants, and how can value for money best be ensured?
- With renewed interest in improving the effectiveness of coordination, how can both horizontal coordination (notably the commitment of sectoral ministries to regional development strategies) and vertical coordination (between central government and sub-national levels) be improved? What works?

## ANNEX 1

**Table A1: National socio-economic indicators**

	GDP per capita PPS 2008-12 EU28=100	Employment rate 2008-12	Unemployment rate 2008-12	% of people at risk of poverty / social exclusion 2007-11	Population 2012 as % of 2002	Population density 2006-10
EU28	100.0	68.9	9.2	23.8	3.6	115.9
DK	125.6	76.8	6.4	17.6	3.8	127.5
LU	265.7	70.3	4.9	16.6	18.2	189.2
NL	132.1	77.7	4.2	15.3	3.9	487.6
CH	154.4	81.8	3.8	17.6	9.6	191.3
UK	110.8	74.1	7.4	22.7	7.2	252.7
AT	127.7	75.1	4.3	17.2	4.7	101.1
FI	115.6	74.0	7.7	17.3	4.0	17.5
NO	186.2	80.3	3.2	15.2	10.2	15.6
SE	124.8	79.1	7.8	15.2	6.4	22.5
BE	118.4	67.4	7.6	20.9	7.6	353.2
CY	96.4	74.1	7.0	23.8	22.2	86.2
CZ	81.0	71.2	6.4	15.0	2.9	134.6
DE	118.9	75.2	6.8	20.1	-0.7	229.9
FR	108.4	69.5	9.4	18.9	6.4	101.4
IT	101.6	61.6	8.4	25.7	4.2	201.7
ML	85.0	60.5	6.5	20.2	5.8	1302.8
SI	85.6	70.4	6.9	18.1	3.1	100.6
EE	66.7	71.2	11.8	22.4	-4.9	30.9
IE	128.5	66.3	12.3	26.4	17.5	64.3
PL	62.3	64.8	8.9	29.5	0.8	122.0
ES	100.6	63.1	19.2	24.4	12.8	90.1
PT	78.6	70.1	12.0	25.1	2.1	115.3
RO	47.3	63.6	6.9	43.0	-2.2	93.6
SK	73.6	66.0	12.8	20.5	0.5	110.3
BU	45.0	66.2	9.3	50.0	-7.1	68.9
HR	60.2	59.1	11.7	32.0	-1.0	78.3
GR	85.5	62.3	14.4	28.5	2.9	85.9
HU	65.1	61.1	10.2	29.6	-2.4	107.9
LV	57.8	68.5	15.4	37.1	-13.0	36.4
LT	64.2	67.9	13.1	30.5	-13.6	53.5

**Note:** 1. Countries are grouped, depending on whether data are above/below the EU average. 2. Data on poverty and population density are for the EU27; data on poverty for Croatia data are for 2010-11 only.

**Source:** EPRC calculations based on Eurostat and Ameco data.

Table A2: Regional socio-economic indicators

	Average regional dispersion of GDP per capita 2008-10 NUTS 2	Average regional dispersion of regional employment 2008-12 NUTS 2	Average regional dispersion of regional unemployment 2008-12 NUTS 2	Average regional dispersion of household disposable income per capita 2008-10 NUTS 2	Average regional dispersion of GDP per capita NUTS 3 2008-10
Mean	0.326	0.061	0.260	0.138	0.399
DK	0.190	0.017	0.074	0.036	0.244
NL	0.151	0.024	0.146	0.070	0.264
NO	0.237	0.024	0.158	0.069	0.300
SE	0.218	0.029	0.123	0.089	0.213
AT	0.194	0.038	0.396	0.028	0.257
FI	0.252	0.062	0.198	0.102	0.239
FR	0.314	0.048	0.195	0.103	0.469
GR	0.263	0.039	0.130	0.146	0.279
PT	0.280	0.033	0.166	0.188	0.368
DE	0.220	0.043	0.385	0.107	0.410
PL	0.283	0.050	0.167	0.161	0.521
BE	0.353	0.091	0.582	0.100	0.366
CZ	0.453	0.048	0.359	0.130	0.441
ES	0.226	0.123	0.303	0.195	0.209
UK	0.492	0.055	0.246	0.166	0.667
HU	0.471	0.097	0.317	0.099	0.585
CH		0.041	0.291		
IE					0.368
LT					0.330
SI					0.272
BU	0.485	0.085	0.309	0.237	0.637
RO	0.537	0.062	0.313	0.358	0.547
SK	0.584	0.096	0.365	0.229	0.554
IT		0.186	0.438		
EE					0.479
HR					0.422
LV					0.527

**Notes:** 1. Countries are grouped, depending on whether data are above/below the EU average. 2. Employment and unemployment data for Finland are for 2009-12 only. 3. No regional data are available in Eurostat for Cyprus, Luxembourg or Malta.

**Source:** EPRC based on Eurostat data.

**Table A3: National economic change during the crisis/downturn period**

	<b>GDP annual average change, 2008-12</b>	<b>Employment rate, annual average percentage point change, 2008-12</b>	<b>Unemployment rate, annual average percentage point change, 2008-12</b>	<b>Youth unemployment average percentage point change, 2008-12</b>	<b>Gross public debt, % of GDP 2012</b>	<b>Net govt deficit (-) or surplus (+), % of GDP 2012</b>
EU28	-0.2	-0.3	0.7	1.4	86.9	-4.0
AT	0.6	0.7	0.0	0.0	73.4	-2.5
DE	0.7	1.0	-0.6	-0.8	81.9	0.2
LU	0.0	2.9	0.2	0.5	20.8	-0.8
ML	1.3	1.8	0.0	0.1	72.1	-3.3
RO	0.4	0.1	0.1	0.5	37.8	-2.9
PL	3.4	0.5	0.1	1.0	55.6	-3.9
SE	1.0	0.3	0.4	0.9	38.2	-0.5
NO	0.6	1.0	0.1	0.3	29.6	13.9
CH	1.2	1.2	0.1			0.4
BE	0.4	0.6	0.0	0.2	99.6	-3.9
NL	-0.1	-0.2	0.3	0.5	71.2	-4.1
FI	-0.6	-0.2	0.2	0.5	53.0	-1.9
CZ	0.3	-0.2	0.3	1.8	45.8	-4.4
DK	-0.9	-1.0	0.7	1.3	45.8	-4.0
FR	0.0	0.1	0.4	1.0	90.2	-4.8
SK	2.0	-0.3	0.6	2.7	52.1	-4.3
BU	0.7	-2.0	1.1	2.8	18.5	-0.8
CY	0.2	0.6	1.6	3.5	85.8	-6.3
SI	-1.1	-1.1	0.8	2.1	54.1	-4.0
UK	-0.4	0.0	0.5	1.3	90.0	-6.3
EE	-1.0	-0.9	1.1	2.2	10.1	-0.3
HR	-1.9	-2.3	1.4	3.8	53.7	-3.8
LV	-2.6	-4.3	1.7	3.3	40.7	-1.2
LT	-0.5	-3.7	1.9	3.9	40.7	-3.2
ES	-0.8	-3.3	3.3	7.0	84.2	-10.6
HU	-1.0	-0.3	0.7	2.0	79.2	-1.9
IT	-1.4	-0.3	0.9	3.0	127.0	-3.0
GR	-4.4	-3.5	3.2	6.5	156.9	-10.0
IE	-1.2	-2.9	2.0	4.3	117.6	-7.6
PT	-1.2	-2.1	1.4	3.5	123.6	-6.4

**Notes:** 1. Countries are grouped, depending on whether data are above/below the EU average. 2. GDP data are in constant prices and national currency.

**Source:** EPRC based on Eurostat and Ameco data.

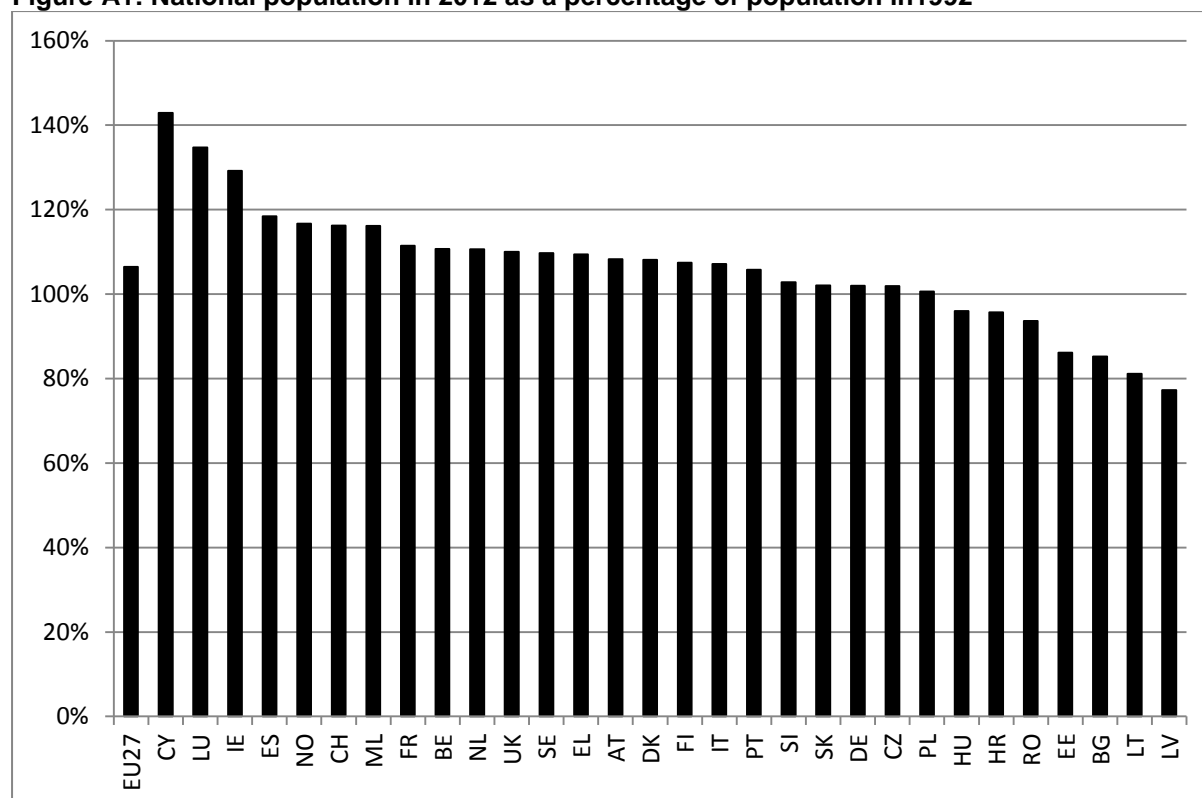


**Table A4: Changes in regional disparities during the crisis/downturn period**

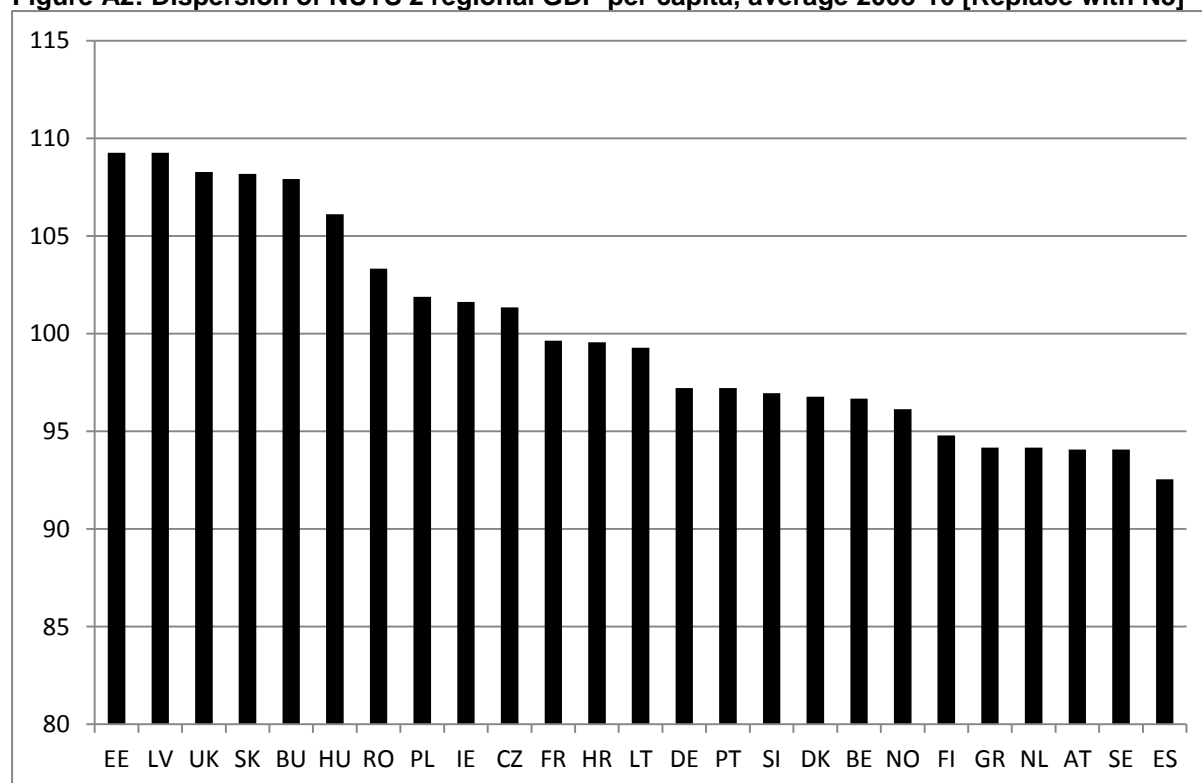
	Regional dispersion of GDP per capita NUTS 2 2008-10	Regional dispersion of employment rates NUTS 2 2008-12	Regional dispersion of unemployment rates NUTS 2 2008-12	Regional dispersion of household disposable income per capita NUTS 2 2008-10	Regional dispersion of GDP per capita NUTS 3 2008-10
Mean	0.005	0.000	-0.007	0.002	0.005
PT	-0.001	-0.001	-0.015	-0.003	-0.001
BE	-0.002	0.000	-0.004	-0.003	-0.002
CZ	0.004	0.000	-0.019	0.002	0.004
DE	0.004	-0.002	-0.004	-0.001	0.003
HU	0.002	-0.003	-0.031	-0.054	0.008
NO	0.000	-0.001	-0.013	-0.001	0.007
ES	0.001	0.006	-0.014	0.002	0.001
AT	0.000	0.001	-0.001	-0.002	-0.002
BU	0.019	0.000	-0.027	-0.011	0.024
FR	0.006	0.000	0.000	-0.002	0.005
GR	0.007	0.003	-0.006	-0.022	0.005
IT	0.001	-0.002	-0.015		
SE	0.001	0.001	0.002	0.002	0.001
UK	0.014	0.000	-0.006	-0.001	0.017
NL	0.006	0.000	-0.007	0.005	0.011
SK	0.006	0.001	-0.015	-0.009	0.006
DK	0.007	0.000	-0.004	0.004	0.008
FI	0.007	-0.003	-0.011	0.008	0.006
PL	0.006	0.001	0.001	0.006	0.001
EE					-0.004
LV					-0.015
LT					-0.014
RO	0.017	0.005	0.015	0.008	0.018
CH		0.001	0.022		-
HR					0.015
IE					0.027
SI					-0.001

**Notes:** 1. Countries are grouped, depending on whether data are above/below the EU average. 2. GDP per capita data for Norway are for 2009-10 only; employment and unemployment data for Finland are for 2010-12 only. 3. All data are shown as percentage point changes in the population-weighted coefficient of variation.

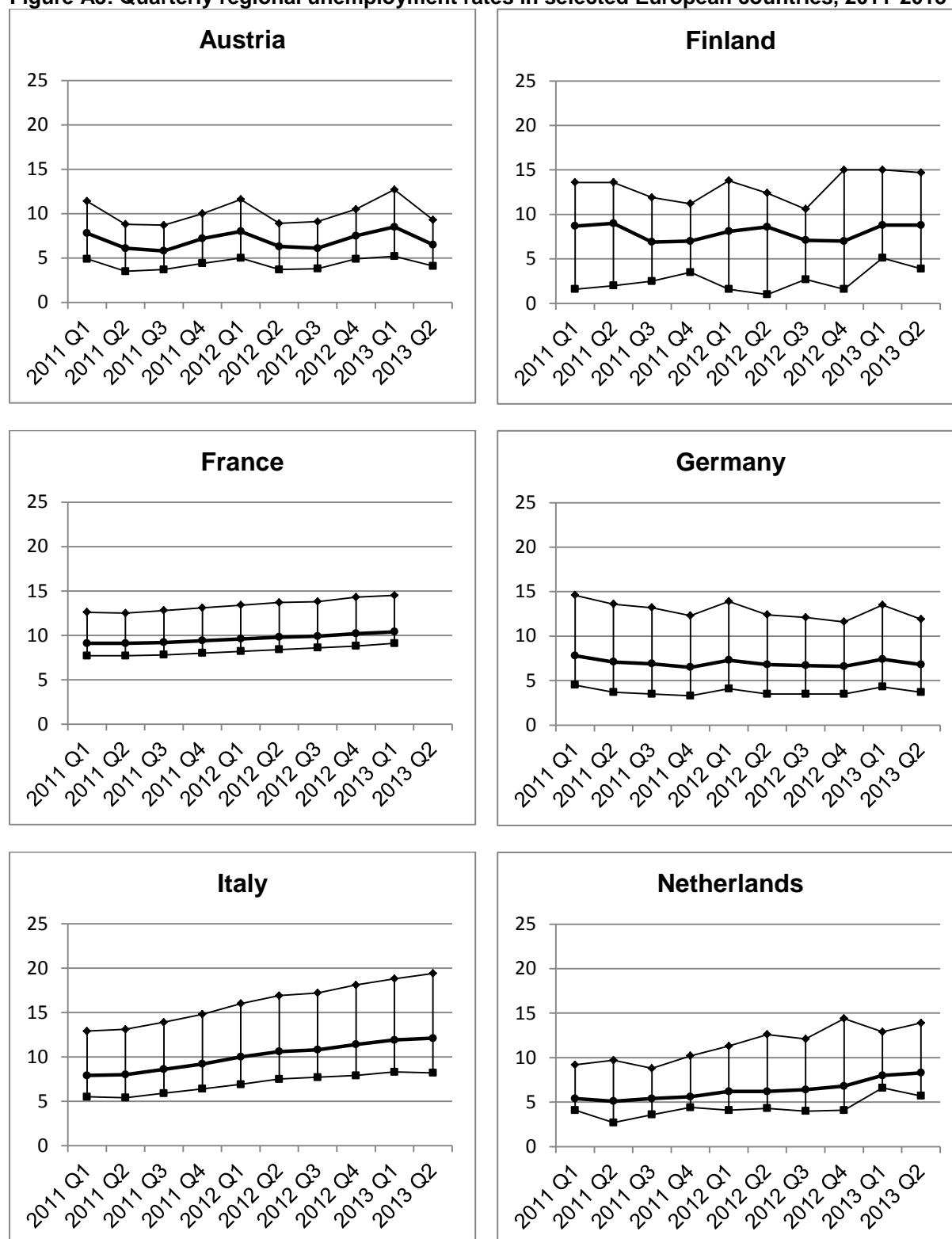
**Source:** EPRC based on Eurostat and Ameco data.

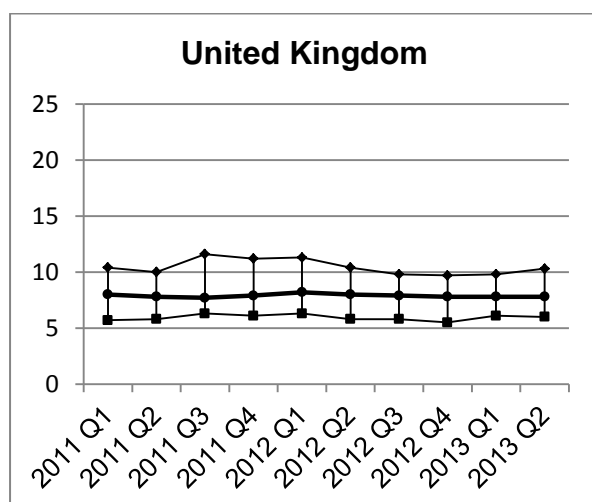
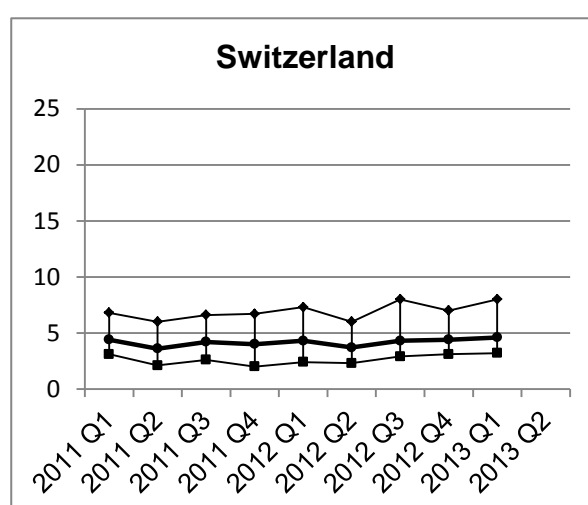
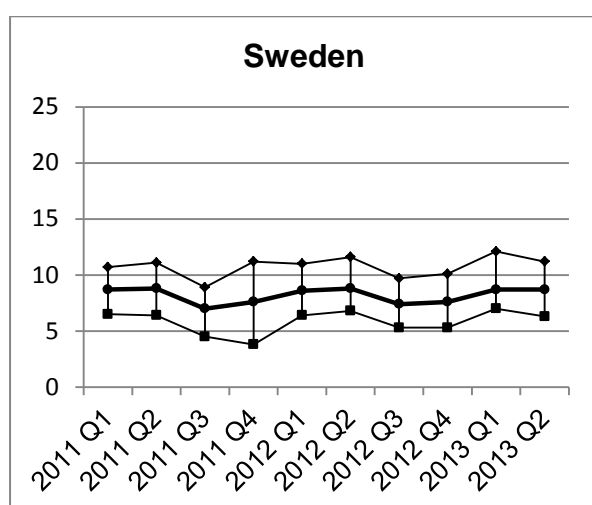
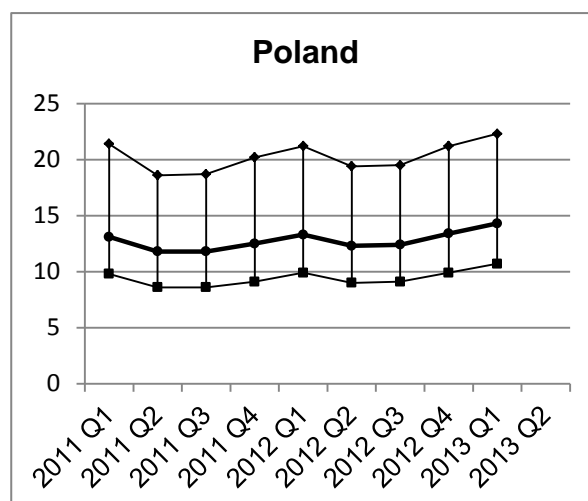
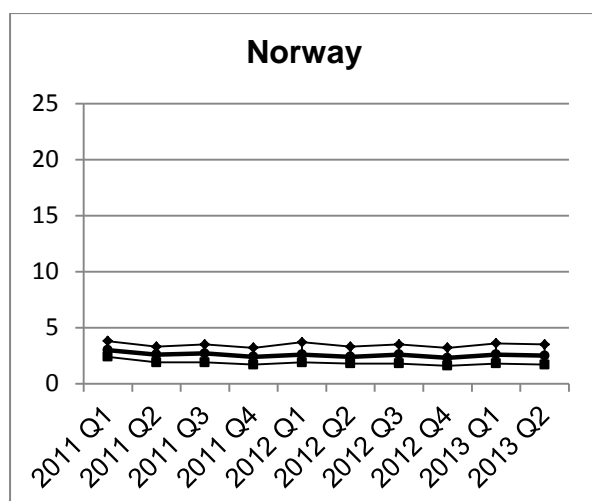
**Figure A1: National population in 2012 as a percentage of population in 1992**

Source: EPRC calculations based on Eurostat data.

**Figure A2: Dispersion of NUTS 2 regional GDP per capita, average 2008-10 [Replace with N3]**

Source: EPRC calculations based on Eurostat data

**Figure A3: Quarterly regional unemployment rates in selected European countries, 2011-2013**



**Notes:** 1. Unemployment data for France, Italy and the United Kingdom are seasonally adjusted, whereas data for other countries are not. 2. NUTS 1 data are presented for Germany and the United Kingdom; NUTS 2 data for Austria, France, Italy, Poland, the Netherlands and Switzerland; and NUTS 3 for Finland, Norway and Sweden. 3. The top line shows the region with the highest unemployment rate, while the bottom line shows the region with the lowest unemployment rate, and the middle line shows the national average.

**Source:** EPRC calculations based on national statistical office data.