



THE OBJECTIVE OF ECONOMIC AND SOCIAL COHESION
IN THE ECONOMIC POLICIES OF MEMBER STATES

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FINAL REPORT

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European Policies Research Centre
University of Strathclyde
Graham Hills Building
40 George Street
Glasgow G1 1QE
United Kingdom

Tel: +44-141-548 3222
Fax: +44-141-548 4898
E-mail: fiona.wishlade@strath.ac.uk

<http://www.eprc.strath.ac.uk/eprc/>

Preface

This is the Final Report of a study of the objective of economic and social cohesion in the economic policies of the Member States, commissioned by DG REGIO and submitted by the European Policies Research Centre (University of Strathclyde, Glasgow) and Euroreg (University of Warsaw) under European Commission contract no: 2009 CE 16 0 AT 018 / 2009 CE 16 CAT 014.

The Report has been drafted by Fiona Wishlade, Frederike Gross and Professor Douglas Yuill with significant contributions from Dr Martin Ferry, Stefan Kah, Carlos Mendez, Dr Katja Mirwaldt, all of EPRC, and by Professor Grzegorz Gorzelak and Dr Marek Kozak of Euroreg.

This Report draws on, analyses and synthesises national reports produced in cooperation with National Experts from each of the EU Member States. Their research contributions are gratefully acknowledged:

AUSTRIA	Hildegard Orazé	Metis GmbH
BELGIUM	Luc Broos, Nienke Pilkes	ERAC
BULGARIA	Julia Spiridinova	ProInfraConsult Ltd
CYPRUS	Dimitrios Lianos, Victoria Chorafa	LKN Analysis
CZECH REP	Jiri Blazek, Marie Maceskova	Charles University
DENMARK	Henrik Halkier	Aalborg University
ESTONIA	Kristiina Tonnisson	Tartu University
FINLAND	Kaisa Lahteenmaki-Smith, Petri Uusikyla	Net Effect
FRANCE	Georges Mercier	ADT Consult
GERMANY	Helmut Karl	Ruhr University
GREECE	Dimitrios Lianos, Victoria Chorafa	LKN Analysis
HUNGARY	Hildegard Orazé	Metis GmbH
IRELAND	Irene McMaster	EPRC
ITALY	Manuela Crescini, Eleonora Carnevali	RESCO
LATVIA	Tatjana Muravska	University of Latvia
LITHUANIA	Jonas Jatkauskas, Inga Bartkeviciute, Edvinas Belevicius	BGI Consulting Ltd
LUXEMBOURG	Luc Broos, Nienke Pilkes	ERAC
MALTA	Lino Briguglio, Stephanie Vella	Malta University
NETHERLANDS	Luc Broos, Nienke Pilkes	ERAC
POLAND	Grzegorz Gorzelak, Marek Kozak	EUROREG
PORTUGAL	José Lúcio, Regina Salvador	New University of Lisbon
ROMANIA	Daniela-Luminita Constantin	Academy of Economic Studies, Bucharest
SLOVAKIA	Martin Obuch	Consulting Associates
SLOVENIA	Damjan Kavas	Institute for Economic Research, Ljubljana
SPAIN	Jaime del Castillo Hermosa, Silke Haarich	Infyde
SWEDEN	Kai Boehme	SWECO EuroFutures
UK	Martin Ferry	EPRC

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Notwithstanding the above acknowledgements, the contents and views expressed in this Report are those of the authors in EPRC and Euroreg, and they do not necessarily reflect the opinions or policies of the European Commission. Any errors or omissions remain the responsibility of the authors.

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1. INTRODUCTION

This study is set within the broader context of Articles 174 and 175 of the Treaty of the European Union. The overall aim of the study is to identify which Member State economic policies (both national and sub-national) are of most relevance to the Community's economic, social and territorial cohesion objectives as set out in Article 174; and to describe how such policies are designed and implemented with a view to determining how and to what extent they contribute to the achievement of these objectives.

More specifically, the purpose of the study, as set out in the terms of reference, is:

- first, to identify which of the economic policies of the Member States are most relevant to the issue of economic and social cohesion;
- second, to determine the degree to which economic and social cohesion is an explicit objective of such policies and how such policies are conducted and coordinated to achieve this objective;
- third, to evaluate the relative importance of EU Cohesion policy (both quantitatively and qualitatively) in the design and implementation of these Member State policies to achieve economic and social cohesion;
- and finally, to develop a general typology of the existing approaches of the Member States to the attainment of economic and social cohesion.

The study is presented in two parts: a *General Report* which provides a comparative overview of policies reflecting the key tasks outlined above (Part I); and a series of 27 *Country Reports* (Part II).

Following this introductory chapter, **Part I** comprises eight further chapters, as follows:

- A discussion of the *concepts and objectives of economic, social and territorial cohesion*. This considers European perspectives on the notion of cohesion, as well as the wider background literature, before exploring Member State interpretations of the concept.
- An analysis of the *scale of Member State spending on cohesion*. By way of background, this chapter begins with a brief overview of the magnitude and patterns of total public expenditure in the Member States; it goes on to examine national spending on economic and social cohesion and the relative size of national cofinancing of EU Cohesion policy.
- An overview of *national policy instruments to promote economic and social cohesion*. This distinguishes three main types of instrument: narrow regional policy; broad regional policy; and sectoral policies with a cohesion dimension.

- A review of the *implementation of national policies to promote cohesion*. This considers to what extent and how policy is delivered in the regions; issues of policy coordination; and the mechanisms for ensuring efficient policy delivery.
- An assessment of the *importance of EU Cohesion policy*. This chapter explores the role of EU Cohesion policies in national policies in relation to a number of key dimensions, notably strategic objectives and priorities, financing and governance.
- An appraisal of the *impact of the crisis on national policies to promote cohesion*. Not originally envisaged in the call for tenders, this chapter aims to provide a preliminary assessment of the effect of the crisis on regional problems and on regional policy.
- A *typology of Member State policies to promote cohesion*. This chapter draws together the main strands of the report and seeks to group countries according to their approaches to promoting cohesion.
- *Conclusions*. The main messages to emerge from the report.

Part II of the report is delivered under separate cover and comprises information on the regional problems and national policy responses for each of the 27 Member States. The country-level information was produced by the National Experts in response to a detailed checklist developed by the project team and agreed with the Commission services. This national information was subsequently supplemented by additional insights and expertise provided by EPRC staff¹ on the basis of the Centre's long-standing comparative regional policy work for the EoRPA regional policy research consortium.² This has been complemented by comparative and national statistical data and maps, where available. The final outcome takes the form of a series of country reports, one for each of the Member States. These are set out in two parts:

- First, a *statistical overview* comprising a series of tables and maps, specifically:
 - Basic data on population, population density, surface area, GDP, GDP(PPS) per head (Figure 1)
 - A time series (1999-2007) of regional dispersion of GDP per head, unemployment and employment at NUTS 2 and 3 (depending on availability and applicability)³ (Figure 2)

¹ Sara Davies, Martin Ferry, Frederike Gross, Stefan Kah, Carlos Mendez, Rona Michie, Katja Mirvaldt, Irene McMaster, Laura Polverari, Heidi Vironen and Douglas Yuill.

² See <http://www.eprc.strath.ac.uk/eorpa/default.cfm>

³ Clearly data are more limited in countries with no NUTS 2 or 3 breakdown beyond the national level, as is the case for Cyprus and Luxembourg, for example.

- A time series (1999-2007) of regional disparities in GDP, unemployment, employment and household income at NUTS 2 and 3 (depending on availability and applicability) (Figure 3)
- A map of regional disparities in GDP per head (2005-7) in relation to the national average, generally at NUTS 2, but for some countries at NUTS 3
- A map of designated areas for regional aid 2007-13 (where available)
- A time series (2003-8) of cohesion-related expenditure expressed as a proportion of GDP (Figure 4)
- Cohesion policy indicative allocations at current prices for 2007-13 (Figure 5)
- An overview of the scale of EU cohesion policy and related national commitments for 2007-13 (Figure 6)
- Key areas of national spend on cohesion as identified in the national expert's report (Figure 7).
- Second, a *review of policy* comprising the following elements:
 - a **brief overview** of domestic Member State policies aimed at economic, social and territorial cohesion; their legal basis, form and importance and their relationship to EU Cohesion policy;
 - a description of their **objectives**, including where those objectives are found (constitutions, laws, White Papers, government statements etc.);
 - a review of the **regional problem**, its nature and intensity and how it is perceived within the Member State;
 - a discussion of the **policy response**, covering three main potential components of domestic economic development policies aimed at cohesion: *narrow regional policies* (such as regional aids, but also policies targeted at specific spatial characteristics); *broader regional development policies* (reflecting all-region approaches to regional development); and *sectoral measures* which either fall within the ambit of regional policies or which have explicit economic cohesion objectives;
 - a description of the main **policy features** of such economic policies aimed at cohesion and how they impact on cohesion: the *policy frameworks* within which they operate; the *objectives* of the different components of such policies; the *implementation* of these policies and whether policy delivery mechanisms help to support cohesion; and the degree of *policy coordination* to cohesion ends;

- a consideration of the relative importance of EU Cohesion policy in the design of economic policies aimed at promoting cohesion, covering the *strategic objectives* of policy as well as policy *funding, governance* and *impact*;
- last a brief discussion of the impact of the economic crisis on regional development and policy.

The country reports in Part II are complemented by an Annex which provides the statistical data in a comparative format.

2. ECONOMIC, SOCIAL AND TERRITORIAL COHESION - CONCEPTS AND OBJECTIVES

2.1 Introduction

'Cohesion is an ideal towards which societies have to strive continually. It is a goal to which they aspire, but never fully achieve. This makes precise definition elusive.'

This quote from the Council of Europe (2000) captures the difficulties associated with pinning down the concept of cohesion. The literature on cohesion policy typically begins by highlighting definitional problems. Begg *et al* (2003: 23), for example, note that "Cohesion is not an easy notion to define and, although there is often a tacit understanding of what it means, it is open to a variety of interpretations". The aim of this chapter is to explore the diversity of these interpretations and the evolution of the concept of cohesion over time. The discussion begins with a review of how the concept is perceived at the European level, especially by the European Commission. It goes on to consider broader academic thinking on the economic, social and territorial aspects of cohesion. Last, it examines how Member States have interpreted the concept of cohesion, focussing in particular on the geographical dimension.

2.2 EU perspectives

A starting point for analysing the notion of cohesion is to review how it is defined and explained at the EU level. The objective of economic and social cohesion was first enshrined in the EU Treaty under a specific title through the Single European Act of 1986; the territorial dimension was added under the Lisbon Treaty which came into force on 1 December 2009.⁴ A number of Treaty articles highlight the importance of economic, social and territorial cohesion to the Union. Thus:

- under Article 3 of the Treaty of European Union (TEU): the Union shall promote economic, social and territorial cohesion, and solidarity among Member States;
- under Article 4 of the Treaty on the Functioning of the European Union (TFEU) : economic, social and territorial cohesion is a shared competence between the Union and the Member States;
- and under Article 14 (TFEU): without prejudice to Article 4 (TEU), Article 93 (TFEU) regarding transport, Article 106 (TFEU) regarding undertakings with special or exclusive rights, Article 107 (TFEU) regarding State aid, and given the place occupied by services of general economic interest in the shared values of the Union and *their role in promoting social and territorial cohesion*, the Union and the

⁴ Although the term cohesion did not appear in the Treaty of Rome, in its preamble the Member States did declare themselves 'anxious to strengthen the unity of their economies and to ensure their harmonious development by reducing the differences existing among the various regions and the backwardness of the less-favoured regions.'

Member States....shall take care that such services....fulfil their missions. (Emphasis added).

More specifically, Article 174 (FTEU) reiterates the Treaty objective of promoting “overall harmonious development” in the Union through the pursuit of “actions leading to the strengthening of its economic, social and territorial cohesion”. The aim of these actions is then stated as “reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions” with particular attention given to “rural areas, areas affected by industrial transition, and regions which suffer from severe and permanent natural or demographic handicaps such as the northernmost regions with very low population density and island, cross-border and mountain regions”.

The policy instruments assigned to the cohesion objective and their aims are specified in Article 175 (FTEU):

- the economic policies of the Member States should be conducted and coordinated with a view to attaining EU cohesion
- EU policies (including the implementation of the internal market) should contribute to EU cohesion
- and the Structural Funds (European Agricultural Guidance and Guarantee Fund, Guidance Section; European Social Fund; European Regional Development Fund), the European Investment Bank and the other existing Financial Instruments should support the achievement of EU cohesion.

Title XVIII also includes an article on the European Regional Development Fund which aims to help “redress the main regional imbalances in the Union through participation in the development and structural adjustment of regions whose development is lagging behind and in the conversion of declining industrial regions” (Article 176, FTEU). By contrast, the Cohesion Fund is described as an instrument that is set up to “provide a financial contribution” to transport and environment projects (Article 177, FTEU).

One final point of interest with respect to the Treaty is the Protocol No 26 on services of general interest in context of Article 14 (FTEU), which notes:

- the essential role and the wide discretion of national, regional and local authorities in providing, commissioning and organising services of general economic interest as closely as possible to the needs of the users;
- the diversity between various services of general economic interest and the differences in the needs and preferences of users that may result from different geographical, social or cultural situations; and
- a high level of quality, safety and affordability, equal treatment and the promotion of universal access and of user rights.

Indications of European Commission thinking on the concept of cohesion can be drawn from the Cohesion Reports, which have been published every three years since 1996. The First Cohesion Report (European Commission, 1996) provided the first and most explicit attempt by the Commission to define and operationalise the concept. At a normative level, the report begins by linking the concept of cohesion to models of society in EU countries and especially the values of 'internal solidarity' and 'mutual support' which aim to ensure equal opportunities for all citizens to services of general benefit and protection. Moving towards more operational and measurable cohesion targets, the report emphasised the geographical dimension of 'reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions, including rural areas', as stated in the EU Treaty. In economic terms, the reduction of geographical disparities was interpreted as meaning 'convergence of basic incomes through higher GDP growth, of competitiveness and employment' (European Commission, 1996: 13).

The social dimension of cohesion was regarded as being more difficult to operationalise, being more closely tied to the above-mentioned social market economy values. Key systemic policies which contribute to social cohesion include universal systems of social protection, regulation to correct market failure and systems of social dialogue. From a dynamic perspective, the First Cohesion Report notes that the promotion of social cohesion requires 'the reduction of the disparities which arise from unequal access to employment opportunities and to the rewards in the form of income' (European Commission, 1996: 14). Unlike the geographical approach informing the economic dimension of cohesion, specific social groups are mentioned in the conceptual discussion - the long-term unemployed, the young unemployed and the poor - and interpersonal equality (at an individual level) is regarded as a key feature of social cohesion.

Three further points on the conceptualisation of cohesion are made in the report. First a distinction is made between absolute and relative change in the dynamics of cohesion. Although 'convergence' and the 'narrowing' of disparities between poorer regions and between disadvantaged groups is mentioned as a core objective, the report also notes that cohesion does not necessarily imply a reduction in either growth or jobs for other regions or groups. Second, and related to this, cohesion is seen as being compatible with diversity in the sense that the aim is not necessarily to achieve harmonisation, but rather greater equality in economic and social opportunities. Third, a concern with long-term and environmentally-friendly (sustainable) development should also form part of the concept of cohesion.

Notwithstanding these latter observations, the report's empirical analysis of cohesion focuses on indicators relating to income (GDP per head), productivity (GDP per person employed), the labour market (unemployment, employment) and poverty (indices at the household level). In addition, trends are measured in terms of convergence at various geographical levels (both national and regional, the latter including NUTS I, II and III) and across social groups (youth unemployment, long-term unemployment, female employment participation and poverty).

The Second Cohesion Report (European Commission, 2001) did not re-examine cohesion from a conceptual perspective. The socio-economic analysis largely updated the previous

analysis of trends in economic and social cohesion disparities employing similar types of indicators, but including a more detailed and disaggregated analysis at the sectoral level. The report did, however, introduce the notion of 'territorial' cohesion, reflecting the EU agreement on the European Spatial Development Perspective during 1999 which focused on bringing about more balanced and sustainable polycentric development, while acknowledging the close link with the Treaty's commitment to 'harmonious development of the Union as a whole' and the similar rationale underpinning territorial cooperation programmes funded by the ERDF. The empirical analysis of the territorial dimension of cohesion focused on centre-periphery patterns of development and spatial development patterns in urban areas, rural areas, border regions and areas with specific geographical features (mountainous areas, coastal and maritime areas and islands).

The Third Cohesion Report (European Commission, 2004) followed the same approach as the second report, updating the previous analysis on the basis of similar indicators for economic and social cohesion, while also analysing projected growth and convergence dynamics in the new Member States and the implications of an ageing population across the EU. More importantly from a conceptual perspective, the Commission outlined some further thinking on the concept of territorial cohesion. In particular, territorial cohesion was regarded as being anchored in fundamental values embodied in the EU's Treaty, especially the right for citizens not to "be disadvantaged by wherever they happen to live or work in the Union" and that "citizens should have access to essential services, basic infrastructure and knowledge" highlighting the importance of services of general economic interest for promoting 'social' and 'territorial' cohesion. Moreover, it defined the policy objectives of territorial cohesion as supporting the achievement of "a more balanced development by reducing existing disparities, avoiding territorial imbalances and by making both sectoral policies which have a spatial impact and regional policy more coherent." The indicators used for the analysis of territorial cohesion were more sophisticated than in previous reports, profiting from the work of the European Spatial Planning Observatory Network and the Urban Audits undertaken by DG REGIO. The EU-wide empirical analysis considered a range of broader development challenges than in previous reports (such as demographic patterns, accessibility, public services provision, congestion and pollution etc.) and additional spatial levels (such as metropolitan areas, cities and towns).

Progress reports on Cohesion have since been published on an annual basis. The first two did not provide any further discussion of the conceptual underpinning of cohesion or detailed analysis of trends in cohesion (European Commission, 2005; 2006). The same is true of the latest Cohesion Report (European Commission, 2007) on the conceptual side, although it did provide a thorough and detailed empirical analysis of economic, social and territorial disparities, including in relation to Lisbon agenda themes.

Following the consultation on the Green Paper on Territorial Cohesion, the Sixth Progress Report on Cohesion provided a summary of the responses and the current state of thinking on territorial cohesion. It noted that there is no commonly agreed definition, but that there is broad agreement on the goal and some basic policy implications. The goal is 'to encourage the harmonious and sustainable development of all territories by building on their territorial characteristics and resources.' With respect to policy implications, three general and broadly agreed elements required to achieve the goal include:

- Concentration: achieving critical mass while addressing negative externalities
- Connection: reinforcing the importance of efficient connections of lagging areas with growth centres through infrastructure and access to service
- Cooperation: working together across administrative boundaries to achieve synergies

The background document 'Territorial cohesion: unleashing the territorial potential' further defined territorial cohesion proposes four dimensions of territorial cohesion (European Commission 2009):

- Territorial cooperation: besides cross-border, transnational and interregional cooperation, other forms of cooperation are also deemed to promote territorial cohesion, including macro-regions, European Groupings of Territorial Cooperation (EGTC) or cooperation across external borders.
- Fostering liveable urban and rural communities and strengthening 'territorial programming' in Cohesion Policy, i.e. using local development methodology that builds development strategies from the bottom-up as well as providing support for urban-rural linkages.
- Coordination and integration of Community policies for achieving greater policy coherence: as differential sectoral policies often have unintended territorial impacts, sectoral coordination is intended to promote synergies and thus promote territorial cohesion. Territorial impact assessment and coordination in macro-regions are seen as crucial to this end.
- Territorial analysis and data collection for evidence-based policy-making: to enhance the knowledge base for territorial development policies, a range of audits and data collections are planned, including the ongoing urban audit, several ESPON projects and data collection on cross-border and transnational regions.

2.3 Academic and broader perspectives

Academic commentary on cohesion tends to highlight the elusive nature of the concept, while seeking measures or indicators that aim to concretise to notion. Begg *et al* (2003: 23) suggests that cohesion "embraces inequalities, whether in income, living standards, employment or environmental conditions, and also has to be seen in terms of opportunities as well as outcomes." Molle (2007: 5) contends that "Cohesion is a concept that has been introduced in the EU policy without a precise definition" but that Cohesion is now "understood as the degree to which disparities in social and economic welfare between the different regions or groups within the EU are politically or socially tolerable". While Rumford (2000: 20) focuses more directly on the spatial dimension arguing that "the 'problem of cohesion' should be understood as the persistence or widening of economic disparities between member states and/or their regions, despite attempts by the EU to ameliorate the problem."

While economic, social and territorial cohesion are seen as complementary aspects that should not be separated in the EU policy discourse, the academic literature tends to distinguish between the three concepts. In what follows, therefore, academic thinking on economic, social and territorial cohesion is presented separately, while bearing in mind that the three aspects of cohesion should not be separated in policy terms.

The academic literature on *economic cohesion* and the effectiveness of policy in attaining its objectives has been dominated by studies of economic impact and convergence - see, for example, Bradley (2006), Cappellen *et al* (2003), Ederveen *et al* (2002), Cuadraro-Roura *et al* (2004). The underlying economic conceptualisation and disciplinary focus of these studies has meant that their emphasis has been largely on macro-economic indicators relating to income, productivity and employment as proxies for measuring cohesion, with a view to analysing the contribution of Cohesion policy to convergence across countries and/or regions at various NUTS levels. One important criticism of this approach is that convergence is an inappropriate proxy for measuring cohesion (Barca, 2009: 39), as already noted in the First Cohesion Report. Moreover, these studies only address the economic dimension of cohesion, ignoring, for instance, the social dimension (De Michelis and Monfort, 2008).

The concept of *social cohesion* has a long historical lineage dating back to Emile Durkheim who is said to have coined the term at the end of the 19th century. In reviewing the contemporary literature by academics, government bodies and international organisations, a number of key characteristics of social cohesion have been highlighted (Jenson, 2002). First, the term describes a process rather than a condition or end state. Second, it involves a definition of who is "in" the Community and who is not, to whom members of society owe solidarity, and to whom they do not. Third, social cohesion requires shared values. Fourth, there is a tendency in the literature to devote little attention to the conflicts inherent in pluralist societies and to conflict resolution mechanisms. On the basis of these characteristics, five conceptual dimensions have been highlighted in relation to social cohesion (Jenson, 1998: 15-17; 2002: 144):

- Belonging-isolation: in terms of shared values, identity and feelings of commitment;
- Inclusion-exclusion: in terms of equal opportunities of access in a market society;
- Participation-non-involvement: in terms of engagement through governance practices;
- Recognition-rejection: in terms of respect for and toleration of differences in a pluralistic society;
- Legitimacy-illegitimacy: in terms of respect for institutions.

Among international institutions, the Council of Europe has been particularly active in the promotion of social cohesion, in advancing conceptual thinking and in the development of indicators. Its latest 'Revised Strategy for Social Cohesion' was approved in 2004, and was followed by a detailed methodological guide on social cohesion indicators (Council of Europe, 2005: 23). In the guide, the social cohesion of a modern society is defined as:

'...society's ability to secure the long term well-being of all its members, including equitable access to available resources, respect for human dignity with due regard for diversity and personal and collective autonomy.'

The underlying assumption and policy objective of social cohesion is a social commitment to reduce disparities to a minimum and avoid polarisation. In unpacking the concept, four constituent dimensions of human well-being are emphasised that are seen as being fundamental to the functioning of societies and which recognise human rights and democracy as underpinning the way they are organised: fair and equal access; individual (and collective) dignity; the autonomy of the individual; and participation in community life.

A central purpose of the methodological guide was to develop indicators for analysing the degree of social cohesion in the Member States of the Council for Europe. A series of 26 key indicators were identified that focus on three main aspects of social life (equity, dignity, participation), along with wide-range of sub-indicators to measure these different aspects in greater detail. The indicators are listed in Box 2.1 along with other social cohesion indicator sets developed by the OECD⁵ and EU.⁶

⁵ 'Society at a Glance 2009' is the fifth edition of the biennial compendium of social indicators by the OECD. It provides an overview of social trends and policy developments in OECD countries using indicators from OECD studies and other sources.

⁶ There are currently 21 Laeken indicators, 18 of which date from 2001. The indicators are classified in order of priority, dividing them into primary and secondary categories. See also the statistical portrait of the EU in relation to combating poverty and social exclusion (Eurostat 2010).

Box 2.1: Social Cohesion Indicators

Council of Europe (2005). *Equity in the enjoyment of rights*: 1. Inequality of income distribution. 2. Long-term unemployment rate. 3. Life expectancy at birth. 4a. Proportion of homeless people in the population. 4b. Population without access to quality housing. ***Dignity/recognition***: 5. Assumption of senior responsibilities for women. 6. Ethnic or religious ghettos. 7. Elderly people who receive a minimum old age allowance. ***Autonomy/occupational, family and personal development***: 8a Proportion of over-indebted households. 8b Proportion of households below the poverty threshold in spite of both parents working. 9. Dropout rate at the minimum school-leaving age without qualifications. 10. Ability of children from disadvantaged social backgrounds to succeed at school. ***Participation/commitment***: 11. Participation in elections by 18-34 year-olds. 12. Proportion of the budget reserved for social issues. 13. Workers with disabilities in the public and private sector. 14. Proportion of jobs in the voluntary sector. 15. Elderly people living with their families. 16. Confidence in public institutions. 17. Suicide rate. 18. Awareness of human rights and of the right to justice. 19. Subjective perception of health. 20. Murder rate.

OECD, DEELSA/ELSA (1999). 1. Divorce rate. 2. Fertility rates. 3. Incidence of lone parent families. 4. Group membership. 5. Election participation rates. 6. Foreign-born population. 7. Mixed marriages. 8. Asylum seekers. 9. Suicide rates. 10. Age of women at first childbirth. 11. Working mothers with children. 12. Crime rates. 13. Death rates from drug usage. 14. Work stoppages. 15. People in correctional facilities. 16. Acquisition of nationality.

OECD (2009). 1. Degree to which people are satisfied with their lives 2. Share of all employees reporting that they felt 'completely', 'very' or 'fairly' satisfied in their main job. 3. Share of people who have been victims of a criminal offence. 4. Suicide rate. 5. Rates of school bullying and being bullied. 6. Risky behaviour rates of teenagers such as drinking alcohol, smoking or having unprotected sex.

European Union 'Laeken Indicators'. Primary indicators - *Income*: 1. Low income rate after transfers (threshold set at 60% of median national equivalized income). 2. Low income threshold (illustrative values). 3. Distribution of income (quintile 5/quintile 1). 4. Persistence of low income (based on threshold of 60% of median national equivalized income). 5. Relative median low income gap (difference between the median income of persons below the low income threshold and the threshold of 60% of median national equivalized income). ***Employment***: 6. Regional cohesion (dispersion of regional employment rates). 7. Long-term unemployment rate (percentage of EAP that has been unemployed for at least 12 months). 8a. Children (ages 0-17) living in jobless households; 8b. Adults (ages 18-59) living in jobless households. ***Education***: 9. Early school leavers not in education or training. 10. Fifteen-year-old students with low-reading literacy scores. ***Health***: 11. Life expectancy at birth. ***Employment***: 12. Immigrant employment gap. **Secondary indicators - *Income***: 13. Dispersion around the low income threshold. 14. Low income rate anchored at a moment in time; 15. Low income rate before transfers, by sex. 16. Gini coefficient. 17. Persistence of low income (below 50% of median income). 18. Workers at risk of poverty. ***Employment***: 19. Long-term unemployment share. 20. Very-long-term unemployment rate (at least 24 months; as a percentage of the working population). ***Education***: 21. Persons with low educational attainment.

With a more specific focus on EU Cohesion policy, the Barca Report reflected on the concept of social cohesion as informed by the EU's social inclusion agenda. The report defines social inclusion as:

'...the extent to which, with reference to multidimensional outcomes, all individuals (and groups) can enjoy essential standards and the disparities between individuals (and groups) are socially acceptable, the process through which these results are achieved being participatory and fair.'

There are several key features to this definition. First, it captures 'threshold' and 'interpersonal' aspects of inequality, the former in terms of guaranteeing essential standards and the latter in terms of ensuring that disparities between individuals (but also groups) are socially acceptable. Second, the reference to a participatory and fair process encapsulates the idea that both the dimensions and the thresholds used in defining social inclusion must be established through democratic means. Third, the reference to multi-

dimensional outcomes reflects the multi-faceted nature of people's values and choices in overcoming their circumstances.

Although *territorial cohesion* formally became a shared competence only with the ratification of the Lisbon Treaty, academic and policy discourse has long been preoccupied with the concept. One can distinguish between two debates around territorial cohesion that took place in the late 1990s and the 2000s and that feed into each other: the spatial planning debate and Cohesion policy debate.

The spatial planning debate originated from the perception that many EU policies had unintended territorial impacts that had to be assessed and coordinated at EU level (AER, undated; Husson, 2002). It was not clear exactly how it would be defined but territorial cohesion developed from long-established concepts in the planning literature. In particular, it was linked to the concept of polycentric development that has been prominent in the recent literature on the development and operation of functional relationships in clusters of cities (eg. Dieleman and Faludi, 1998; Kloosterman and Musterd, 2001; Davoudi, 2003; Priemus *et al*, 2004). The key objectives underlying the concept of polycentrism are the balanced spatial distribution of urban centres and the dispersion and deconcentration of economic activity (Davoudi, 2003; Molle, 2007). The idea that territorial cohesion was linked to the polycentric spatial distribution of economic activity was embraced in various European policy initiatives such as the European Spatial Development Perspective (ESDP) of 1999 and much ESPON research into European spatial trends.

Another major spatial planning concept that has been linked to territorial cohesion, above all in the ESDP, is the notion of accessibility. This refers to the ambition for citizens to have equal access to facilities, services and knowledge regardless of where they live. It is usually defined in terms of traffic infrastructure, communications networks and, as a more recent concern, energy supply networks.

Building on the spatial planning debate that took place largely between the member states, the Commission - or, more precisely, the Directorate General Regional Policy - began to present territorial cohesion as a natural component of Cohesion policy in its second Cohesion Report. Successive Cohesion Reports increasingly referred to 'economic, social and territorial cohesion'.

There was still no commonly agreed definition but, in the context of the Cohesion policy debate, territorial cohesion was often linked with balancing regional disparities and exploiting regions' distinctive development potentials (Doucet, 2007; Jouen, 2008).⁷ Particular emphasis was placed on geographically-distinct territories, notably mountainous, coastal and island regions but also special types of regions such as border regions or sparsely populated areas (Monfort, 2009).

⁷ In this sense, it was also linked to the Lisbon agenda, competitiveness, innovation and full employment (European Commission, 2009).

The Commission's long-awaited Green Paper on Territorial Cohesion was published in autumn 2008. Based on Member State responses to a Commission questionnaire, the Green Paper identifies three main components of territorial cohesion:

- Balanced and harmonious development, to be achieved by connecting different territories, through infrastructure and by providing access to services and communications networks.
- Overcoming divisions and territorial inequalities through cooperation at all geographical scales and across borders.
- Regions with specific geographical challenges should be assisted in dealing with the disadvantages of peripherality and limited accessibility.

Social, economic and territorial cohesion was established as a joint Commission and member state responsibility. While, the debate on the meaning of territorial cohesion has not been concluded, there is a sense that insistence on a precise definition would cause needless delays. In general, it is worth noting that the spatial planning and cohesion policy aspects of the debate have gradually been consolidated. In particular, recent thinking on 'place-based' policy approaches is based on the realisation that regions have different natural resources, growth potentials and vulnerabilities, while balancing disparities and ensuring access for all citizens regardless of where they live is also seen as important (Barca 2009). Accordingly, the two main dimensions of territorial cohesion as defined in the Green Paper are: first, balanced development for the integration of poorer regions; and second, accessibility and integration of geographically remote regions and those facing particular challenges. The main avenues for achieving these goals include spatial planning coordination and promoting polycentric development, exploiting territorial potential, improving infrastructure links and enhancing remote regions' access to services, as well as territorial cooperation (Mirwaldt *et al*, 2009).

2.4 National policy perspectives

Turning more specifically to *national* perspectives on concepts of cohesion, an important first point to note is that the notion of 'economic cohesion' is not generally found in domestic policy vocabularies - except insofar as it refers to the co-financing of EU Cohesion policy; territorial cohesion finds still less resonance among national policymakers, although the term 'cohesion' is widely used in the field of social policy.

The emphasis in the discussion that follows is on *economic* cohesion. Nevertheless, the role of social policy in mitigating regional inequalities should not be overlooked and is an important dimension to economic and social cohesion in many of the more prosperous Member States.

2.4.1 Cohesion objectives in Member State policies

The absence of a concrete and agreed definition of cohesion means that quite diverse policy objectives are pursued by the Member States 'in the name of cohesion'. Four *main* objectives can be identified in domestic policies in this context. However, it is important to

stress that these are neither necessarily mutually exclusive (ie. Member States may pursue more than one), nor self-contained - ie. to some extent they reflect a spectrum of approaches as opposed to watertight categories. In addition, it is commonplace to find a commitment to addressing the needs of areas with specific characteristics or disadvantages.

A first objective is the *reduction of regional inequalities*. In some countries, there is a clear commitment to reducing the disparities found between regions. In **Germany**, for example, the Basic Law refers to the creation of equivalent living conditions throughout the country and federal legislation includes the goal of reducing regional economic disparities by supporting regions where development is below the national average. In **Italy** too there is a constitutional commitment to reducing disparities between the regions through additional resources to promote economic development and social cohesion. Similarly in **Spain**, the constitution includes the objective of promoting 'a more equitable distribution of income' and 'a fair and adequate economic balance between the different parts of the Spanish territory'. In **Finland**, the 2009 Regional Development Act has the explicit aim of reducing regional disparities and **Sweden** has a similar focus on the northern territories - importantly, however, in both these countries there is an important *regional competitiveness* orientation to policy which runs alongside essentially equity-motivated objectives. In a number of other countries (for example, Greece, Bulgaria) there are explicit constitutional references to regional or social inequalities or to the needs of specific areas, but these commitments tend not to have been translated into policies that are actually implemented. More generally, it is true to say that, in the last decade or so, among several of the larger and more prosperous Member States, there has been a shift away from policies which aim explicitly to reduce disparities in favour of an all-region, competitiveness-oriented approach.

This leads on the second main objective found in the Member States, the promotion of *regional competitiveness*. This has become increasingly prominent in the last decade. It differs from the first objective insofar as the focus is not on the reduction of disparities between regions (though this would clearly be welcome too), but on the exploitation of regional potential as a contributor to national growth. This approach is typified in the **United Kingdom** objective of providing 'the environment for businesses and communities to maximise their potential by tackling market failures in national, regional and local markets to strengthen the key drivers of productivity' (Treasury *et al*, 2003: 3), and where an emphatically all-region approach is pursued. Similarly in **France**, there has been a growing orientation towards regional competitiveness and the promotion of the attractiveness of regions. **Finland** and **Sweden** also focus on regional competitiveness, while operating special measures for sparsely-populated areas in parallel; in **Italy** there is an increasing regional competitiveness orientation under the new unitary regional policy.

The third main objective is concerned with *national competitiveness*. This is principally found in small prosperous Member States with comparatively minor internal disparities. In these countries, the emphasis is on maintaining or enhancing the competitive advantage of the national economy; these countries are also characterised by high levels of social protection - although it is an open question as to whether, and if so in what way, national competitiveness and high levels of social protection are connected. For example, the prime

objective of regional policy in Denmark is 'to ensure that Danish citizens enjoy good and equal conditions no matter in which part of the country they live' (Indenrigs- og Socialministeriet, 2009). In the Netherlands, the absence of significant disparities is acknowledged and policy emphasises the objective of exploiting opportunities of national significance, wherever they happen to be located. In Luxembourg and Austria policy is oriented to national competitiveness, although in Austria there is arguably more emphasis on regionally-differentiated approaches, largely reflecting the federal structure of the country since disparities are limited. The focus on national competitiveness represents a different dimension to the promotion of cohesion insofar as the aim is to maintain levels of prosperity to enable a high level of social protection to operate; to this extent, the emphasis is essentially on the promotion of social (and to some extent territorial) cohesion rather than economic cohesion. Ireland arguably also shares the objective of national competitiveness, although there are significant internal disparities (notably owing to the dominance of Dublin); moreover, levels of social protection are not as high as other countries cited here and, while still prosperous in GDP per capita terms, it is fair to say that the national economy has recently exhibited a degree of fragility.

The fourth main objective is concerned with *national development*. Here, the primary consideration is with narrowing the development gap between *national* prosperity and the EU average. This objective dominates the policy agenda in most of the EU12, as well as Greece and Portugal. In this sense, economic disparities are related to the EU as a benchmark and the impact of attaining this objective on internal disparities is secondary. Moreover, in many of these countries, levels of social protection are relatively low. Nevertheless, it would be mistaken to view countries where the main policy aim is to converge with EU levels of prosperity as a homogenous group. In Poland, for example, there is a commitment to a 'place based' regional policy that concentrates on the endogenous potentials of all regions and an emerging strategy for 'polarisation-diffusion' which prioritises the most competitive sectors, but which provides for the diffusion of the benefits. In Estonia, in spite of the focus on closing the gap with the EU average, one of the objectives of policy is to halt the concentration of people and activities in the capital region. Also, a number of other countries explicitly cite balanced regional development amongst their objectives - such as the Czech Republic and Bulgaria, for instance - while countries such as Hungary, Slovenia, Latvia and Lithuania include the reduction of regional disparities among their broad policy aims. In practice, given the weight of EU Cohesion policy spending and influence in these countries, it is not clear to what extent these are genuinely national objectives to be met by national initiatives. Moreover, given broader funding constraints, there is anyway some doubt about the extent to which they are translated into national (as opposed to EU) policies.

Running alongside these four main objectives, are *aims related to specific territorial needs*. These are frequently concerned with addressing issues arising from geography or topography, but are sometimes also targeted at social or ethnic groups. Finland and Sweden are obvious members of this group, given the development challenges facing their sparsely-populated and often difficult-to-access northern regions. In addition, in France, a large number of spatially-differentiated policies operate to address the specific needs of rural and upland areas; in Cyprus although policy is essentially national, reflecting the

small size of the country, a significant strand of policy aims to address the underdevelopment of rural areas; in Greece, there is a constitutional commitment to develop the economy of mountain, border and island regions; in Malta, there is a specific focus on the double insularity of the island of Gozo; and in Portugal special measures apply to the autonomous regions of Madeira and the Açores.

2.4.2 National perspectives on cohesion - explaining the differences

This brief consideration of national perspectives reveals considerable diversity in approach. In part, this is explained by wide differences in the nature and scale of disparities within countries, and the relationship between *national* prosperity and the EU average (and in consequence the role of EU as opposed to strictly national approaches to cohesion); in addition, and partly as a consequence, different countries attribute different degrees of priority to addressing internal disparities.⁸

(i) The nature of the regional problem

In practice, views of the regional problem tend to reflect a range of indicators at different spatial scales, as well as geographical and topographical characteristics that are not readily captured by statistical analyses. The focus in this section is on how national authorities *perceive* regional disparities from a domestic perspective, rather than on a comparative analysis of regional disparities at a European level, this being extensively covered in the European Commission's regular Cohesion Reports. A consideration of these perceptions suggests that the nature of the regional problem varies widely between countries and that several different groups can be distinguished.

A first group consists of four countries where the regional problem is perceived to be extremely limited. All four are small, wealthy Member States: Austria, Denmark, Luxembourg and the Netherlands. In each, regional disparities are considered to be minor, leading to a muted policy response. This is self-evidently the case in Luxembourg, given its small size, and is also true of the Netherlands where the last major review of regional policy (IBO, 2004) noted that there was only a 'relatively modest prosperity gap' and concluded that a disparity-oriented regional policy could not be justified - the regional dispersion of GDP at NUTS 2 in the Netherlands is just 11.7 percent (2006), the lowest in the EU;⁹ instead, the focus shifted from the traditional problem regions to an all-region policy in support of regional strengths (Ministry of Economic Affairs, 2004). Regional policy has a similar orientation in Denmark where the aim of central government is to maintain Denmark's 'leading position within Europe as one of the countries with the smallest differences between regions' through 'specific initiatives ... that target peripheral areas so that they are not cut off from the growth occurring in other parts of the country.' (Regeringen, 2003). As in the Netherlands, this perception is confirmed by low levels of GDP dispersion (15.7 percent in 2006). There thus continues to be specific regional policy

⁸ Furthermore, and as will be emphasised elsewhere in this report, the role of EU cohesion policy varies very considerably between countries not only in relation to the scale of the financial contribution, but also in its impact on the objectives, instruments and governance of domestic policies.

⁹ See Part II Country Reports for a more extensive statistical overview of regional disparities.

provision for the peripheral areas in the North and the South of the country, but combined with an all-region competitiveness orientation. Finally, in **Austria**, the regional problem is also viewed as low-key, in part reflecting the federal nature of the country (with significant fiscal equalisation), but also the steady reduction in domestic regional disparities following the economic integration of Central and Eastern Europe. This is also reflected GDP dispersion trends which have fallen from 18.5 percent in 1999 to 16.1 percent in 2006.

In a second group, regional problems are seen less in terms of economic disparities and more as specific geographic challenges. For instance, in **Sweden**, geography and climate lead to an uneven distribution of cities and population, while low population densities across most of the country - 22.3 inhabitants per km² on average (and very low densities in large parts of the north - as low as 2.6 inhabitants per km² at NUTS 2) create significant demographic, accessibility, service delivery and rural challenges. **Finland** faces similar problems arising from areas of sparse population in the north and east, with demographic trends putting service provision under pressure and raising questions about the sustainability of the regional spatial structure; population density averages 17.4 inhabitants per km² across the country, falling to 2 inhabitants per km² in the least populated NUTS 2 region. There are, in addition, more general challenges relating to the industrial and economic structure in certain areas. The two island Member States, **Cyprus** and **Malta**, also face specific development issues which are not appropriately reflected in any disparity analysis.

In a third group of countries, regional disparities are relatively limited but a range of regional and sub-regional issues ensure that regional policy remains important, with a long-history in the countries concerned; these disparities are not necessarily easily captured in statistical terms, not least because of the different scales at which disparities manifest themselves (regional, local, intra-urban...) but also because of their nature and the tendency for transfers to mitigate differences in income levels. This is the case, for instance, in **France**, where historically there has been a dichotomy between the capital and the periphery (though easing over time), but where, in addition, there are diverse concerns related to geography (mountains and coastal areas), old industrial areas, rural regions and urban centres; on the other hand, the regional dispersion of GDP in France is relatively modest (20.4 percent at NUTS 2 in 2006) but would be extremely small were the capital region excluded. The **United Kingdom** also faces varied challenges, as encapsulated in its regional productivity agenda which focuses on deficiencies in skills, innovation, investment, enterprise and competition, often at the sub-regional level. Regional issues in the United Kingdom are magnified by the Devolved Administrations, which is obviously also the case, writ large, in **Belgium**. Not only is there a clear distinction between Flanders and Wallonia (and, less so, Brussels), but sub-regional concerns are diverse, ranging from congestion challenges and industrial restructuring to low income rural areas and migration problems. However, the absence of a *national* appraisal of, or responsibility for, regional problems *per se* means that there is no relevant 'domestic' perception of regional disparities beyond that expressed by the Brussels, Flemish and Walloon authorities. Finally, **Spain** faces a variety of regional challenges, including border areas, mountains, sparsely-populated regions, old industrial centres and island regions, contrasting with advanced metropolitan areas; however, the regional dispersion of GDP is more limited than might be expected

(18.4 percent at NUTS 2 in 2006), probably reflecting the complex range of factors contributing to the regional challenge. Combined with the role and powers of the autonomous communities, it is unsurprising that, as with the other countries in this group, the main regional policy measures are well-embedded and long-standing.

The penultimate group is by far the largest, including almost half of the Member States - Ireland, Portugal, Greece, Poland, Czech Republic, Slovakia, Hungary, Slovenia, Estonia, Latvia, Lithuania, Bulgaria and Romania. While in no sense uniform as a group, all exhibit significant regional disparities - in Bulgaria, Hungary and Slovakia, for example, the regional dispersion of GDP exceeds 30 percent at NUTS 2 - most have a dominant capital city region where GDP per head massively exceeds the national average (as in Ireland, Portugal, Czech Republic and Greece, for example) and, at the other end of the spectrum, many have poor and often difficult-to-access rural regions. Outside of their capital city regions, most regions in these countries are poor by EU standards, falling below the 75 percent cut-off for Convergence region status.

Finally, both Germany and Italy face very significant regional challenges, which, historically at least, have been presented in terms of east-west and north-south dichotomies, respectively. In Germany, there is ongoing structural weakness in the eastern *Länder* (though differentiation among them is emerging, with a number of urban areas progressing well) and there are also persistent disparities in the western *Länder*, especially rural-urban but also north-south. In Italy, the long-standing duality between the Centre-North and the Mezzogiorno remains, though regional challenges in the *Mezzogiorno* are becoming more diverse, while the development performance of the Centre-North has also been varied and, for the region as a whole, disappointing in recent years.

(ii) The profile and importance of national regional policy

As far as *national* regional policy is concerned, the *perceived need* to address internal economic, social and territorial disparities and the priority given to it varies between countries. At a very basic level, the importance attached to addressing regional disparities can be partly related to the size and relative prosperity of the country: large countries are more likely to contain significant internal disparities (of various types) than small ones; more prosperous countries are more likely to have the capacity to address them. Of course, it goes without saying that this analysis is rather crude; a range of other factors are also at work, including constitutional and institutional arrangements, domestic policy traditions and the role of EU Cohesion policy. Moreover, many smaller countries are characterised by significant internal disparities, although it is also true to say that these are often related to aspects of physical geography such as insularity, peripherality and accessibility or to the dominance of a single city. Furthermore, while many less prosperous countries are largely preoccupied with national development (in the sense of attaining EU average GDP per head, for example), this does not necessarily preclude the operation of purely nationally-driven initiatives to address specific regional challenges.

Nevertheless, it can be argued that the general picture holds and it is possible to distinguish between four groups of countries in terms of the *importance* given to regional policy. These groups cover all EU countries, except Belgium, where there is no *national*

regional policy and responsibility for economic development is devolved to the regional level (Brussels, Flanders and Wallonia).

In some countries the importance attached to national policies to reduce regional disparities is *limited*, national policy has little profile and limited expenditure:

- Small prosperous countries with limited internal disparities, where the emphasis is on national competitiveness policies which promote the maintenance or enhancement of advantage: **Luxembourg, Netherlands, Denmark, Austria**;
- Less prosperous small, peripheral, essentially unitary, countries with some internal disparities, but a limited recent tradition of regional policy, where the emphasis is on national development in an EU context: **Greece, Portugal, Slovak Republic, Ireland, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania**;
- Large less prosperous countries with wide internal disparities, but limited recent tradition of regional policy and where the focus is on promoting the EU competitiveness of key agglomerations: **Poland, Romania**.

In a second group, the importance attached to regional policy is relatively *modest*. There are identifiable problem regions at which some policy instruments are targeted, but although policy has some profile it is not a significant aspect of economic development generally:

- Large relatively prosperous countries with diverse regional challenges: **France, the United Kingdom**;
- Smaller, less prosperous countries facing a range of diverse internal disparities and where (albeit limited) policies to address those disparities either predate EU accession or persist independently of EU Cohesion policy: **Malta, Slovenia, Cyprus**.

In a third group of countries regional development policy is *significant*:

- In the Nordic Member States the broad and integrated nature of policy, which cuts across and involves coordination with sectoral policy has significant profile and expenditure: **Sweden, Finland**.

Last, there are countries in which regional policy can be classified as *essential*. The requirement to address regional inequalities is enshrined in the constitution; policy has a significant profile and is considered an important component of national economic policy:

- These are large countries, with internal economic disparities that are perceived to be significant: **Spain, Italy, Germany**.

While these categorisations have been relatively stable in recent years, the economic crisis and the changing role of and significance of EU Cohesion policy may change this. In some countries, the economic crisis is raising considerable uncertainties about the role and

profile of domestic policy interventions, while in others regional policy is being reinforced. The impact of the crisis on regional problems and policies is discussed further in Chapter 7.

2.5 Concluding points

This chapter began with a discussion of the concepts of economic, social and territorial cohesion and argues that precise definitions remain elusive; neither EU policymakers nor commentators appear to have arrived at concrete definitions of these concepts that are easy to operationalise. Even so, at the *European* level at least, it is reasonable to conclude that: economic cohesion is primarily concerned with narrowing disparities in output and employment; social cohesion focuses on interpersonal inequalities, and especially the elimination of poverty and social exclusion and the creation of employment opportunities; and territorial cohesion aims at a sustainable and equitable spatial distribution of activities and services. Importantly, however, although academic analyses have tended to consider the three different dimensions of cohesion (typically coming from different disciplinary perspectives), in practice, and for policy purposes, economic, social and territorial cohesion cannot readily be separated.

At this level, the tentative definitions outlined above remain rather nebulous. Moreover, a key issue is the question of an appropriate benchmark - cohesion in relation to *what?* In the context of economic cohesion, even using a simple indicator such as GDP per head, it is unclear whether cohesion refers to: (i) the narrowing of disparities between regions *within* a Member State; (ii) *between* regions within the EU as a whole; or (iii) *between* Member States. This is an important question since Member States can only directly or actively contribute to cohesion within national frontiers - ie. (i) above; the impact on (ii) and (iii) will depend also on the actions of other Member States and the EU level. Similar issues apply for social cohesion (although existing benchmarks, such as the poverty thresholds refer to *national*, not EU median income levels) and, perhaps to a lesser extent, territorial cohesion, given the potential importance of border regions. These considerations have potential implications for the respective roles and coordination of national and EU policies and, specifically, the strategic role of EU Cohesion policy in contributing to economic, social and territorial cohesion at the EU level.

An important point to note in the *national* policy context is that the term 'cohesion' is rarely found in the domestic regional policy vocabularies of the Member States, except insofar as it refers to the cofinancing of EU policy. The absence of a concrete and agreed definition of cohesion means that quite diverse policy objectives may be seen to be pursued by the Member States 'in the name of cohesion'.

3. THE SCALE OF NATIONAL POLICIES TO PROMOTE COHESION

3.1 Introduction

The aim of this chapter is to provide some context for the discussion of policy instruments and implementation which follows. The chapter is in three main parts. The first part sets out the main features of public expenditure across the EU in relation to the scale of spending, its distribution by function and by tier of government. The second part focuses on national expenditures related to economic and social cohesion. The third considers the relative importance, in expenditure terms, of EU and national spending on cohesion policy and in particular the scale of national commitments to co-funding EU Cohesion policy.

3.2 Scale and shape of public expenditure

Government expenditure is not straightforward to analyse, not least in a comparative sense. Nevertheless, in the present context, it is important to have some sense of the scale, shape and pattern of government spending in general, before focussing in on spending and instruments that specifically address the various dimensions of cohesion.

This section focuses on public expenditure at a general level and aims to provide an overview of the scale of spending in the EU Member States.¹⁰ It also highlights variations between countries in the broad patterns of expenditure, focusing particularly on the importance of different functional areas in different countries and on differences in the extent to which expenditure is committed at central or sub-national levels. For these purposes, total general government expenditure data, as available from Eurostat, is used as the basis for the discussion.¹¹

3.2.1 *The scale of spending*

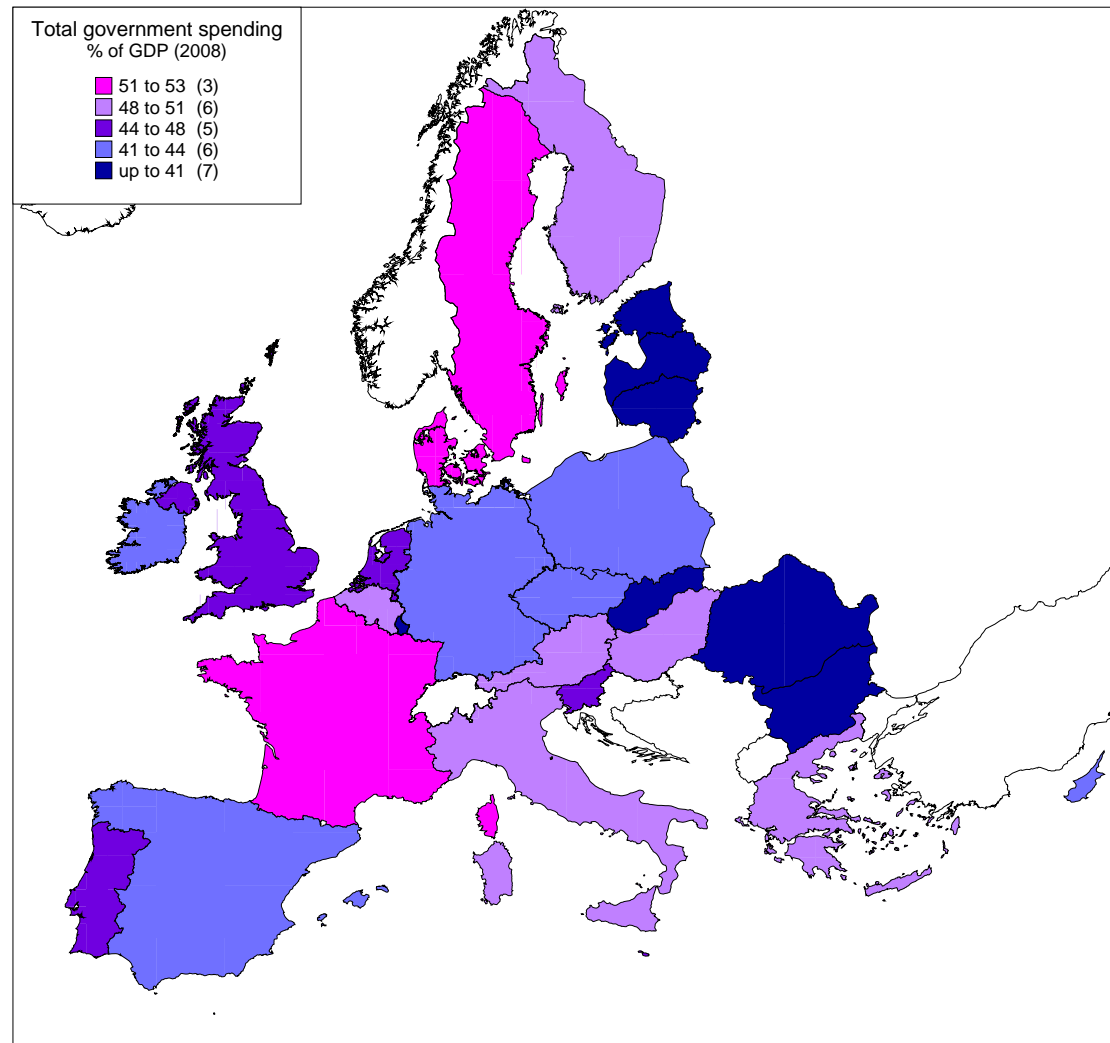
For 2008, Eurostat estimates that total government expenditure amounted to some €5,861 billion or 46.8 percent of EU GDP. However, these aggregates are scarcely meaningful given the very different populations of the Member States. This is reflected in the fact that 2008 expenditures range from just €2.6 billion in Malta to €1,091 billion in Germany.

¹⁰ Note, however, that Eurostat has issued a reservation on Greek data which means that GDP and expenditure data are provisional, for further information on the impact of the reservation, see http://epp.eurostat.ec.europa.eu/portal/page/portal/government_finance_statistics/documents/Reservations%20on%20reported%20data.pdf.

¹¹ The data relate to 2008, the latest year for which a largely complete dataset is available. Clearly, the focus on a single year has some drawbacks. However, the aim at this juncture is simply to provide a snapshot of the situation in order to provide some feel for the relative situations of the Member States, rather than a focus on trends. Nevertheless, it should be noted that the differential impact of the recession has had implications for public spending as a proportion of GDP with spend rising by more than three percentage points between 2006 and 2008 in the UK, Lithuania, Greece (provisional figures), Estonia and Ireland and falling by over two percentage points in Hungary and Slovakia.

A somewhat more meaningful, albeit not flawless,¹² basis for comparison is to consider total government expenditure as a proportion of national GDP. This is reflected in Figure 3.1 which shows a significant variation between countries. At one end of the spectrum, spend is less than 41 percent of GDP (Slovakia 34.8 percent; Luxembourg 37.2 percent; Lithuania 37.4 percent) while, at the other extreme, spending is well in excess of 50 percent of GDP (Denmark - 51.8 percent; France - 52.7 percent; and Sweden 53.0 percent). As noted above, across the EU as a whole, total government spending amounts to 46.8 percent of EU GDP.

Figure 3.1: Total government spending as a percentage of GDP (2008)

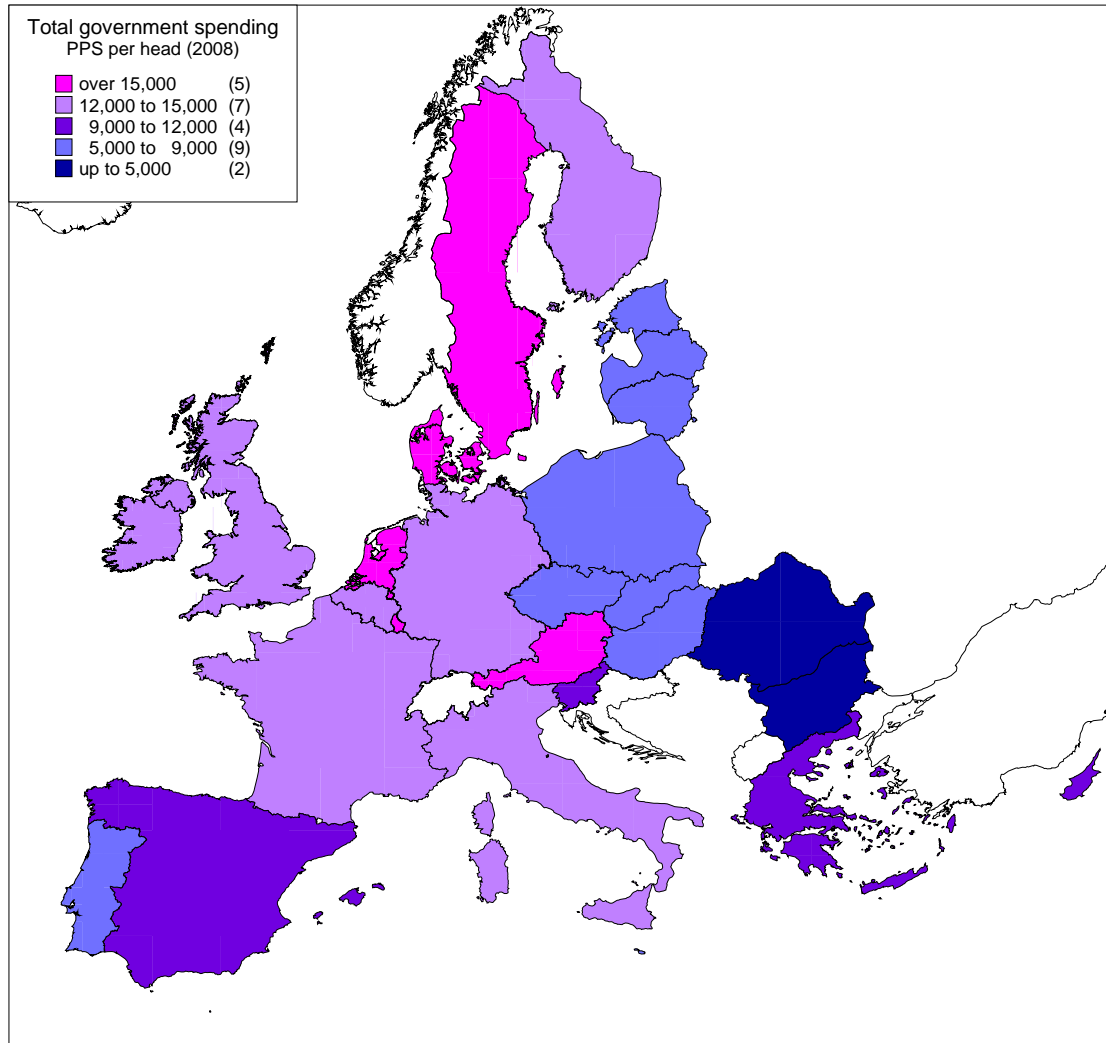


Source: Eurostat.

Spending as a proportion of GDP gives only a partial view of the scale of government expenditure, not least because national economies vary significantly in size. An alternative view is to consider total government spending in *per capita* terms and to adjust for purchasing power standards (PPS) in the different Member States. This shows a rather different perspective, which is illustrated in Figure 3.2.

¹² For example, the large difference between GNP and GDP in Ireland arguably artificially reduces the apparent spend for this country.

Figure 3.2: Total government spending in PPS per head (2008)



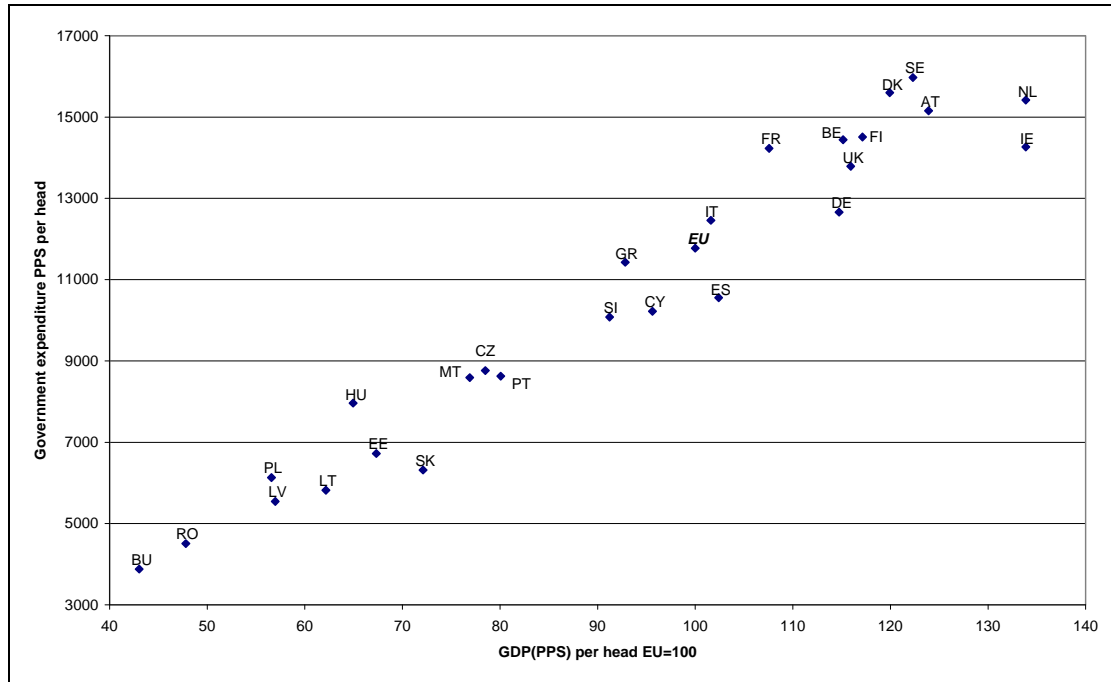
Source: Own calculations from Eurostat data.

The scale of the differences is striking: per capita expenditure in Sweden (almost 16,000 PPS per head) is over four times that in Bulgaria. More generally, Figure 3.2 suggests five broad country groupings:

- **Bulgaria and Romania**, where spending is well under 5,000 PPS per head;
- **the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Portugal and Slovakia**, where spending is in the range 5,000 to 9000 PPS per head;
- **Cyprus, Greece, Slovenia and Spain**, which all spend in the range 9,000 to 12,000 PPS per head;
- **Belgium, Germany, Finland, France, Ireland, Italy and the United Kingdom** where spending exceeds the EU average and is the range 12,000 to 15,000 PPS;
- **Last, Austria, Denmark, Sweden and the Netherlands** with spending between 15,000 PPS and 16,000 PPS per head and **Luxembourg**, which appears as something of an outlier with expenditure exceeding 25,000 PPS per head.

There is some correlation between levels of spend as a proportion of GDP and prosperity insofar as most poorer countries do spend a smaller proportion of GDP than more prosperous countries; however, the correlation is much stronger in *per capita* spending terms. Figure 3.3 shows that per capita levels of spend tend to be lower in poorer countries, even expressed in PPS terms.

Figure 3.3: Total government spending (PPS per head) and national GDP (EU=100), 2008



Note: Luxembourg is excluded for reasons of scale - GDP(PPS) is equivalent to 278 percent of the EU average and public spending is over 25,000 PPS per head.

Source: Own calculations from Eurostat data.

3.2.2 Patterns of public spending by function

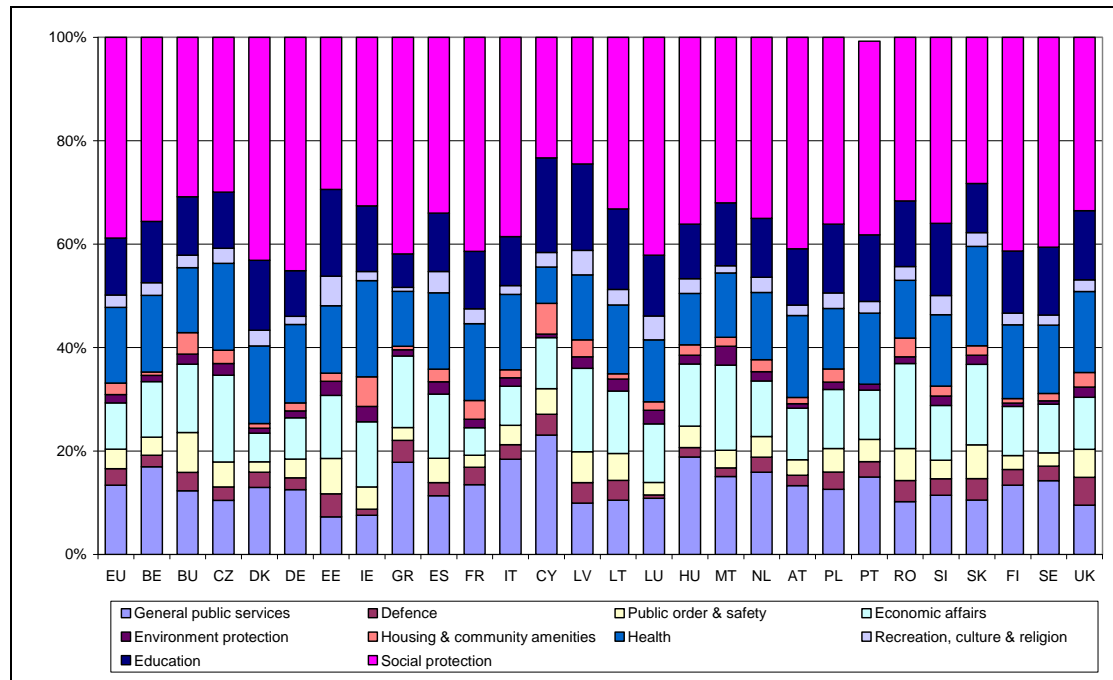
Eurostat data uses the COFOG classification of government expenditure devised by the OECD and published by the UN Statistical Division (Eurostat, 2007). This provides a breakdown into 10 Divisions (level 1), which can be viewed as the broad objectives of government.¹³

By way of context for the later discussion, it is worth considering the overall breakdown of expenditure between government functions. Taking, first, the proportion of the total spent on each function, Figure 3.4 shows the importance accorded to social protection; it is the single biggest category of government spending in every country, accounting for almost 39 percent of the total in the EU, even though the range is relatively large - from over 45 percent of government spending in Germany to around 23 percent in Cyprus. Health and education are the next most significant categories, accounting for almost 15 percent and 11 percent of total spending respectively - leaving aside the general public services category

¹³ These are further broken down into Groups (level 2) and Classes (level 3) which essentially detail the means by which the broad (level 1) objectives are achieved. At present, Member States are only obliged to supply data to level 1, although some data below these levels is available.

where comparisons for *policy* purposes are complicated by the inclusion of public debt transactions and transfers between different levels of government.

Figure 3.4: Government expenditure by function, percent of total (2008)



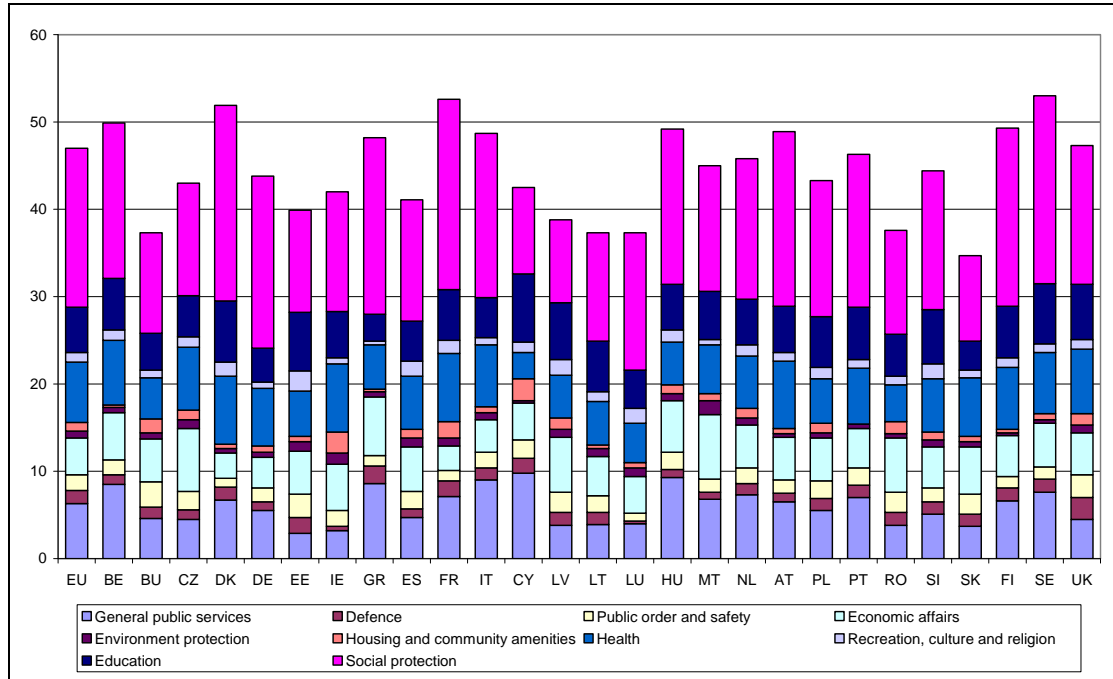
Source: Eurostat.

Comparing expenditure by function on the basis of the share of expenditure within a country gives some measure of the importance accorded to that function within public spending as a whole. However, as seen earlier, total government expenditure varies quite widely as a proportion of GDP. As a result, it is worth considering the breakdown of expenditure in relation to GDP, which gives some indication of cross-country spending in real terms. This is illustrated in Figure 3.5.

At the EU level, expenditure on social protection amounts to around 18.2 percent of GDP, but ranges from 22.4 percent of GDP in Denmark to just 9.5 percent of GDP in Latvia. Denmark, Germany, France, Finland, Italy, Austria and Sweden all spend more than the EU average on social protection expressed as a proportion of GDP; the remaining countries spend less.¹⁴ Importantly, however, expenditure on social protection accounts for a significant proportion of the differences in overall government spending expressed as a proportion of GDP. As noted earlier (see 3.2.1), public expenditure ranges from 34.8 percent of GDP in Slovakia to 53 percent of GDP in Sweden. However, the range narrows when expenditure on social protection is excluded, running from 21.6 percent (Luxembourg) to 32.6 percent (Cyprus).

¹⁴ Greece also spends more than the average, but as noted earlier (see footnote 10 a reservation applies to the Greek data).

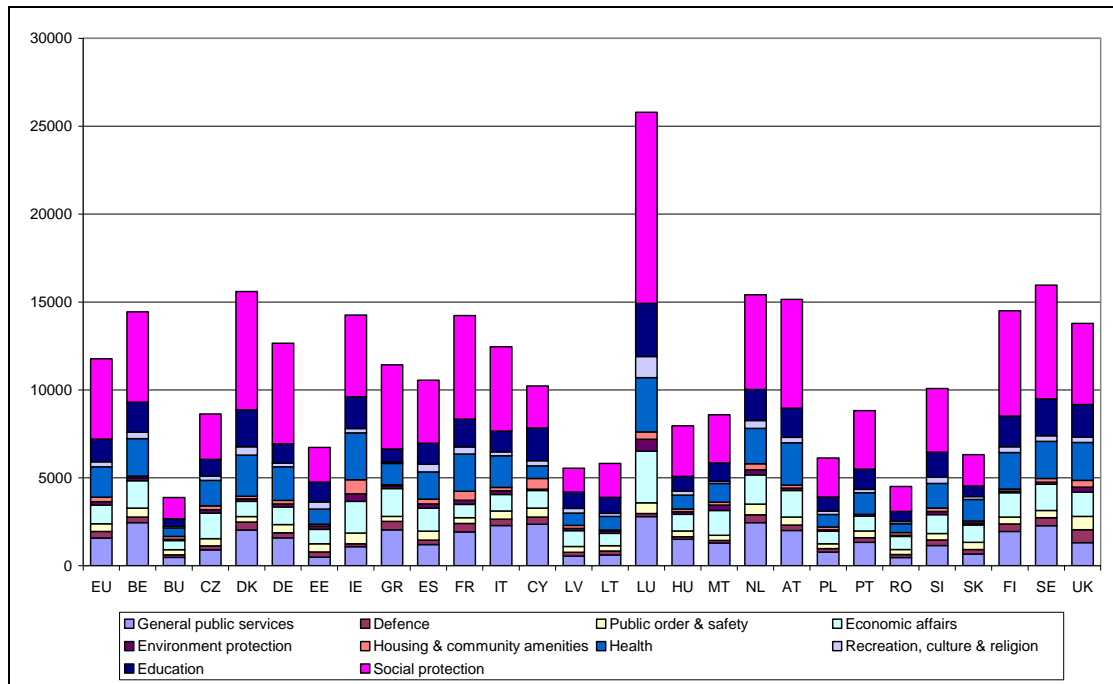
Figure 3.5: Government expenditure by function, percent of GDP (2008)



Source: Eurostat.

Moreover, it is important to recall that, as noted above, the economies concerned vary considerably in prosperity, as well as size, with implications for spending in real terms. Calculating the values of expenditure by function in PPS per head terms gives a more accurate perspective by factoring in differences in the cost of living and population - this is shown in Figure 3.6.

Figure 3.6: Government expenditure by function in PPS per head (2008)



Source: Own calculations from Eurostat.

Although, self-evidently, the overall ranking of categories in terms of spend (social protection, health, education, economic affairs) is the same as on the basis of the indicators in Figure 3.4 and Figure 3.5, there are much wider disparities in levels of spend when expressed in *per capita* terms. For example:

- the amount spent on social protection in Luxembourg is almost nine times that spent in Bulgaria;
- spending on health in Austria is almost five times that of Romania;
- spending on education in Denmark is almost five times that of Bulgaria; and,
- spending on economic affairs in the Netherlands is more than double that of Poland.

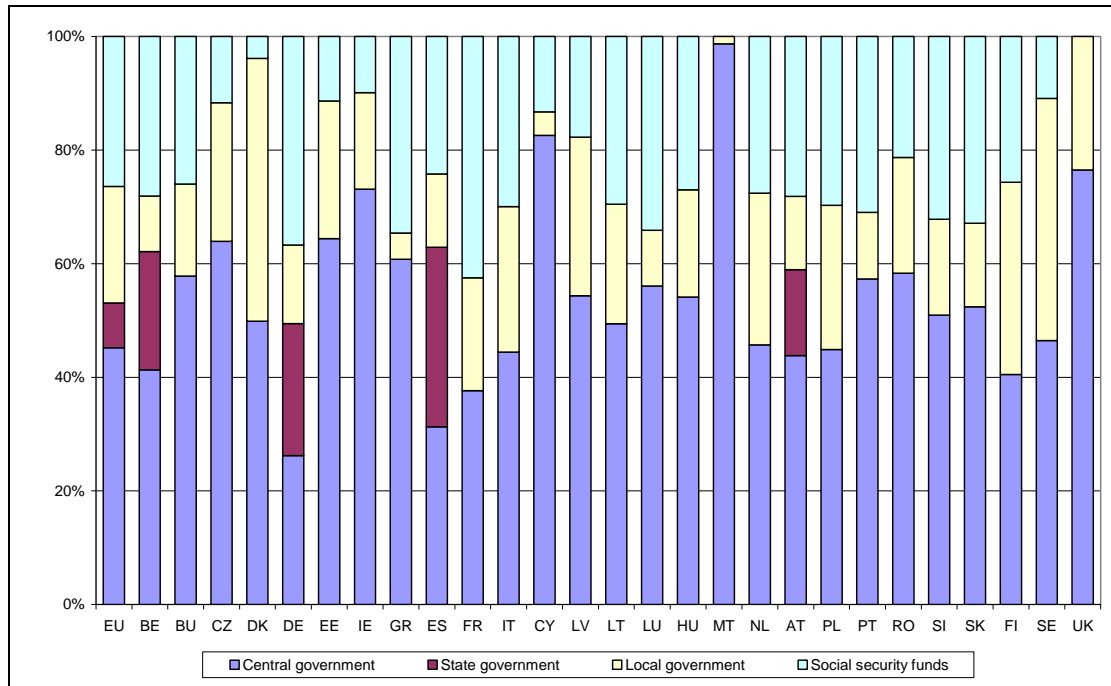
These figures are striking because of their magnitude in a context where price differences have been factored in. In addition, however, these disparities have implications for the scale of the budgetary transfer mechanisms which are implicit in the interplay of tax and social security systems and in the capacity of poorer Member States to contribute to cohesion either domestically or at the European level.

3.2.3 Patterns of public spending by tier of government.

This study extends beyond policies conducted by national authorities to consider also those prosecuted at the subnational level which are relevant to economic, social and territorial cohesion. In expenditure terms, assessing the importance of the subnational level is not straightforward. This partly owes to the significance of transfers between different tiers (central, state, local and social security funds), with the result that, because of elements of double-counting, it is not possible readily to attribute a percentage of total government expenditure to each tier. Nevertheless, by rebasing total expenditure, it is possible to gain some insight into the relative importance of different institutional levels.

Figure 3.7 shows that there are considerable differences between countries in overall responsibilities for government spending. In four countries, **Belgium, Spain, Germany and Austria**, the so-called State level - the Belgian regions, the German and Austria *Länder* and the Spanish *comunidades autónomas* - plays a significant role; in other words this tier of spending only applies to federal states. In most countries, but excluding Malta and the United Kingdom, a considerable proportion of spending is channelled through social security funds. These include autonomous pension funds, where these are required by law or regulation and if government is responsible for the management of the institution with respect to the approval of contributions and benefits; it also includes schemes established by governments to fund healthcare and social benefits where there are separate institutional units administering contributions and benefits.

Figure 3.7: Government expenditure by tier, standardised to 100 percent (2008)



Source: Eurostat.

3.3 National expenditure on economic and social cohesion

The overall aim of this study is to consider the contribution of *Member States'* policies to cohesion. Against the background of the *general* picture of public expenditure presented in Section 3.2, the aim of this section is to assess the scale of expenditure on cohesion. However, any analysis of cohesion spending is complicated by several factors. First, and as discussed earlier in this report (see Chapter 1) there is no agreed nor concrete definition of what is meant by 'cohesion'; second, and partly related, there is no comparative source of statistical information on spending related to cohesion; and third, it is not straightforward to disentangle national from EU expenditure. Nevertheless, the discussion that follows provides some perspective on spending: first in relation to economic cohesion, partly by drawing on recent work undertaken for the Commission; and second, in relation to social cohesion, by considering social protection expenditure collated by Eurostat. These data are very much at a 'macro' level and offer broad orders of magnitude, but complement the 'bottom up' data on individual instruments contained in Part II of this study.

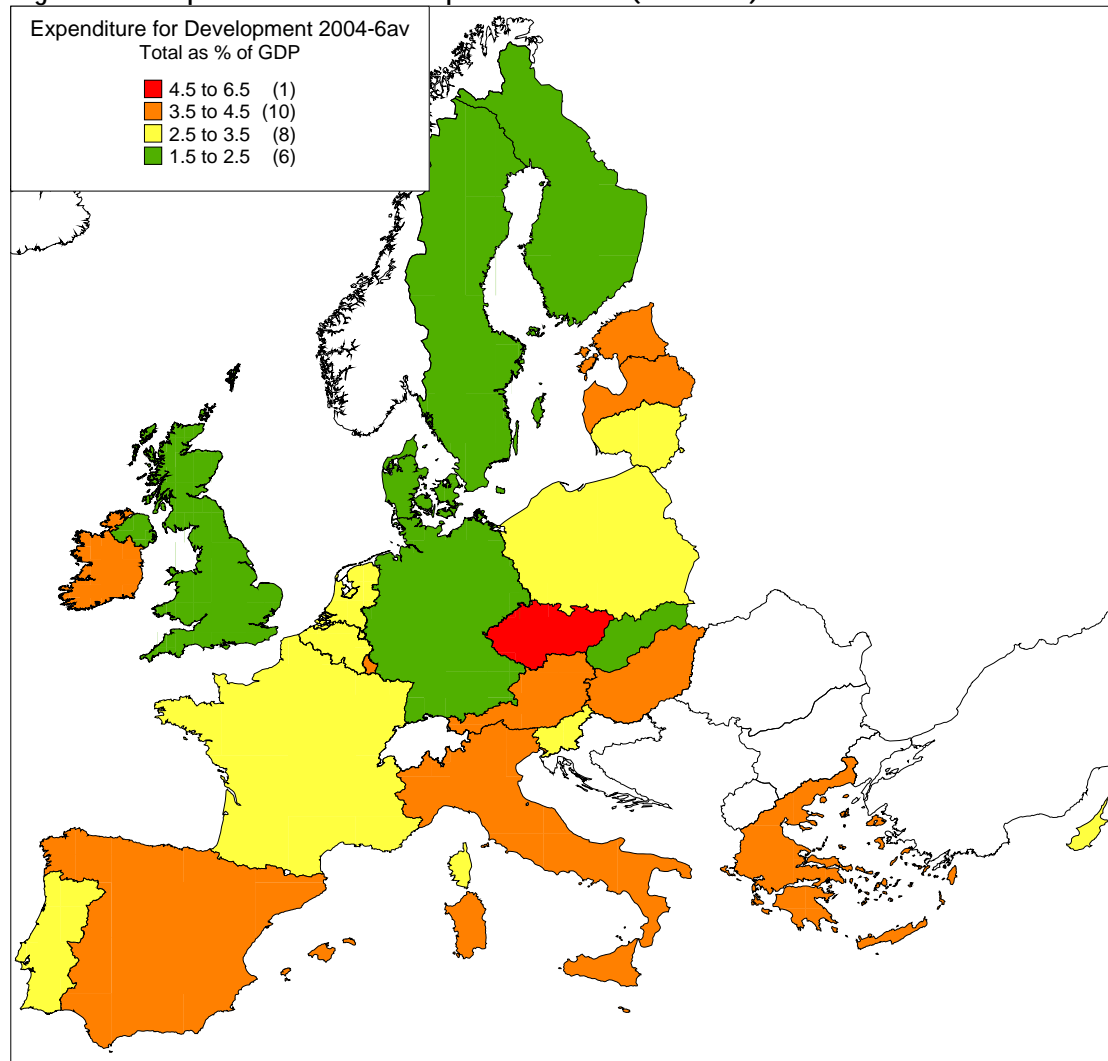
3.3.1 Economic cohesion - 'expenditure for development'

This section partly builds on recent work by Ismeri and Applica (2010) which sought to provide an assessment of national 'Expenditure for Development' (EfD), a concept designed to be consistent with spending under EU Cohesion policy. It is important to note that Cohesion policy is not a concept that is recognised for purely domestic policy purposes in the Member States, and EfD is not equivalent to regional policy or regional economic development policy; nevertheless, the use of EfD provides a standardised basis on which to compare and contrast development expenditures in the Member States. The data in COFOG used as the basis for calculating EfD do not distinguish between national and EU monies; however, as will be seen, the Ismeri and Applica work provides an estimate of the EU

contribution, enabling a measure of the cohesion expenditures of the Member States to be derived.¹⁵

Figure 3.8 illustrates the scale of EfD as a percentage of GDP over the period 2004-6.¹⁶ It suggests that countries fall into four main spending bands, although most in countries spending is between two and five percent of GDP, while Denmark (1.5 percent) and the Czech Republic (6.3 percent) appear as outliers. EU average spend for the period was 2.9 percent of GDP; those that spent less than the EU average on EfD in this period were Finland, Sweden, Germany, Slovakia, United Kingdom, Belgium, Austria, Cyprus, France and the Netherlands.

Figure 3.8: Expenditure for development 2004-6 (% of GDP)



Source: Own calculations from Eurostat data using Ismeri-Applica definition of EfD.

¹⁵ In this section, data cover 2004-6 only since this relates to the period for which the Ismeri-Applica study calculated the EU contribution to expenditure for development (see Figure 35 of the Ismeri-Applica study), enabling a comparison of EfD with and without EU monies.

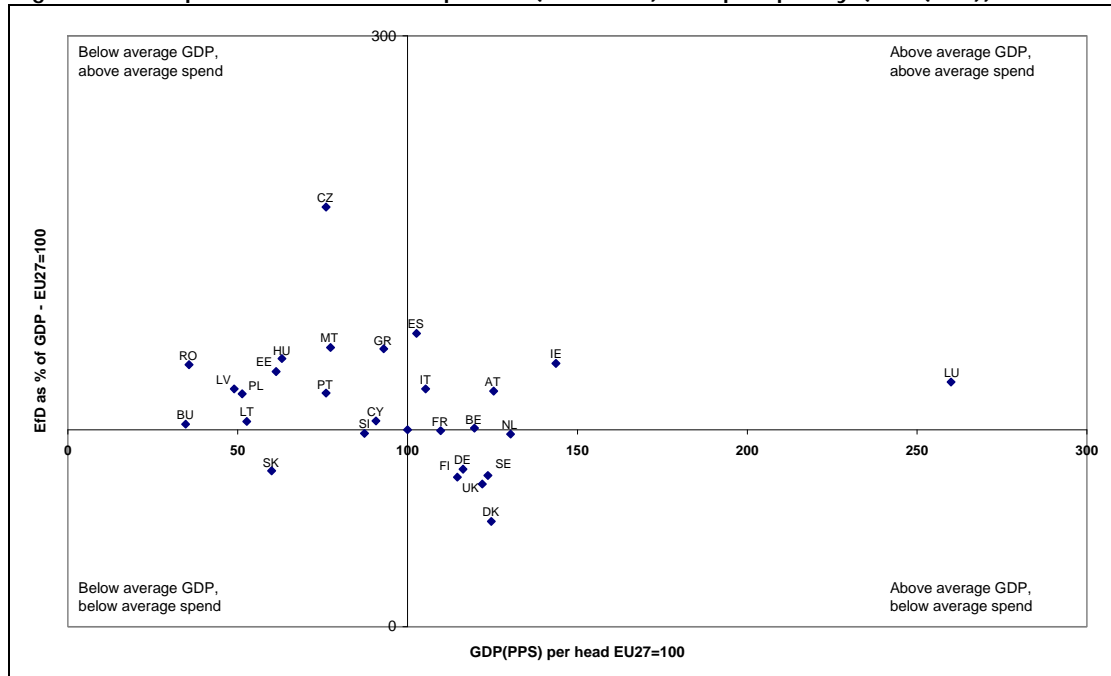
¹⁶ Note that the nature of the data is such that 'expenditure' can fluctuate widely from year to year, hence the use of average amounts. This occurs because COFOG data are prepared on an accruals basis, meaning that 'expenditure' occurs during the year in which the obligation to pay arises; this is distinct from actual payments (or commitments).

The Czech Republic aside, the main groupings that emerge are:

- those with spending in the range 1.5 to 2.5 percent of GDP (Denmark, Finland, Germany, Slovakia, Sweden, UK);
- those with spending in the range 2.5 to 3.5 percent of GDP (Belgium, Cyprus, Estonia, France, Netherlands, Poland, Portugal, Slovenia);
- the remaining ten countries (Austria, Estonia, Greece, Hungary, Ireland, Italy, Latvia, Luxembourg, Malta, Spain) where spending is between 3.5 and 4.5 percent of GDP.

In Figure 3.9, data on EfD are set against national prosperity, expressed in terms of GDP(PPS) per head.

Figure 3.9: Expenditure for development (% of GDP) and prosperity (GDP(PPS)) 2004-6



Source: Own calculations from Eurostat data using Ismeri-Applica definition of EfD.

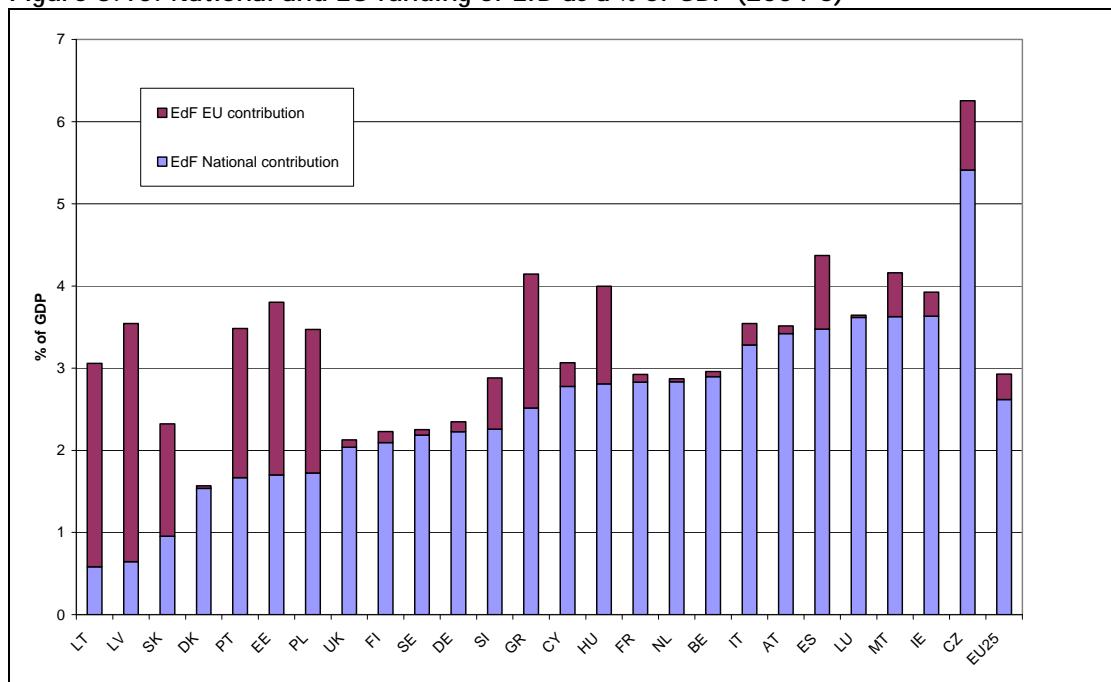
This shows that countries are mainly clustered in three quadrants:

- those with below EU average levels of prosperity, but EU average or above average levels of expenditure for development: Bulgaria, Cyprus, Czech Republic, Estonia, Greece, Hungary, Latvia, Lithuania, Malta, Poland, Portugal, Romania and Slovenia;
- those with above EU average levels of prosperity, and EU average or above average levels of expenditure for development: Austria, Belgium, France, Ireland, Italy, Luxembourg, Netherlands and Spain;

- those with above EU average levels of prosperity, but below average levels of expenditure for development: Denmark, Finland, Germany, Sweden and the United Kingdom.

Slovakia is alone in having both below EU average GDP and below EU average expenditure for development. Importantly, and as mentioned earlier, a key point to note about the data in Figure 3.8 and Figure 3.9 is that they include both national and EU monies. In their recent report, Ismeri-Applica estimated the contribution of EU Cohesion policy to EfD. This is illustrated in Figure 3.10, which shows the relative shares of EU Cohesion policy in EfD as a proportion of GDP; countries are ranked in order of national expenditure.

Figure 3.10: National and EU funding of EfD as a % of GDP (2004-6)

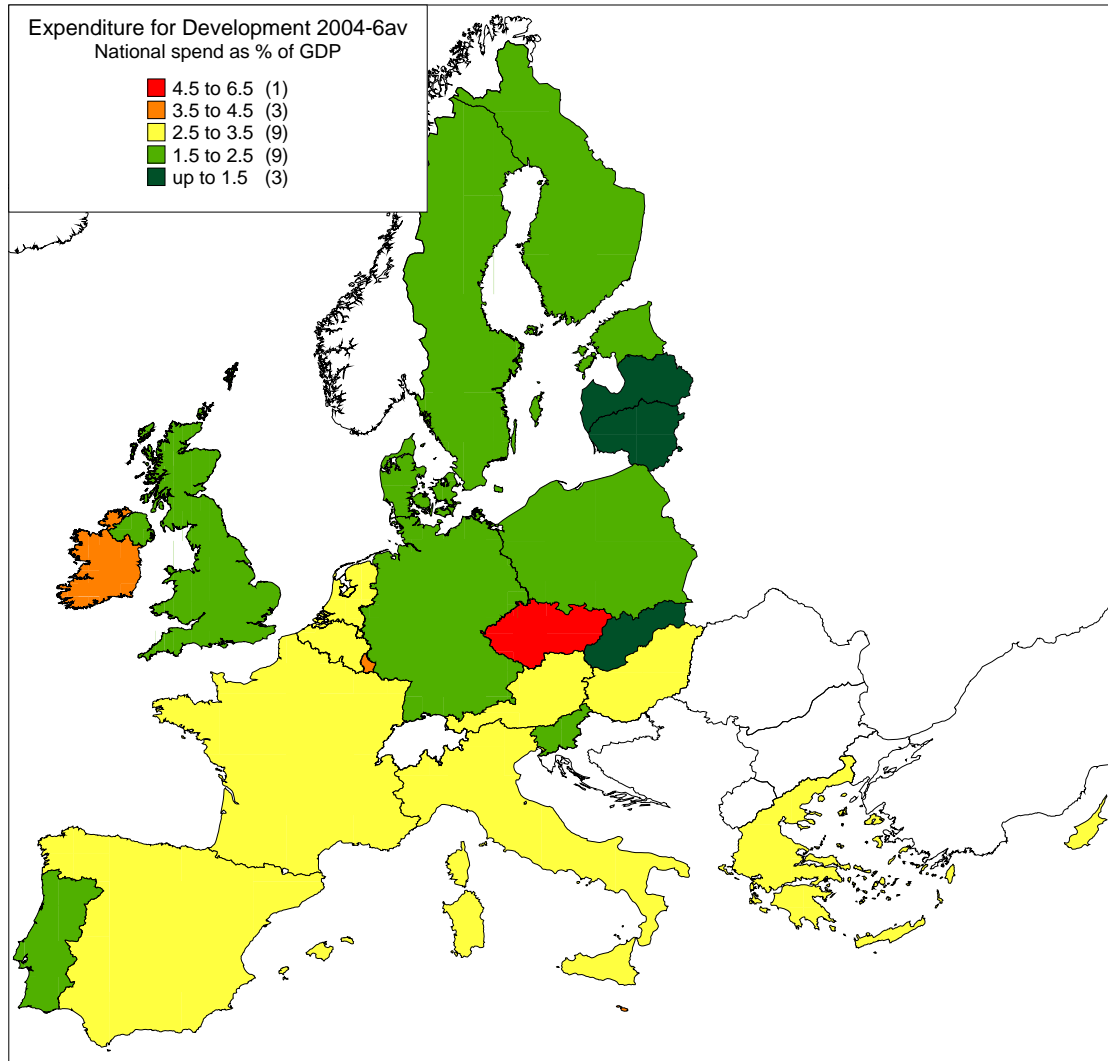


Note: No information is available for Bulgaria and Romania.

Source: Own calculations from Ismeri-Applica (Exhibit 35) and Eurostat GDP and COFOG data.

Figure 3.10 illustrates not only wide variations in the contribution of EU expenditure to EfD (from under one percent of EfD in Luxembourg to over 81 percent in Latvia), but also a significant shift in patterns of expenditure if EU Cohesion policy spending is excluded. Taking account *only* of national expenditure, Denmark no longer appears as an outlier at the 'bottom' of the rankings - Latvia, Lithuania and Slovakia all spend less. Strikingly, the Czech Republic remains at the 'top' of the league with national expenditure outstripping that of other Member States by a wide margin. The impact of 'stripping out' the EU contribution is reflected in Figure 3.11, which may usefully be contrasted with Figure 3.8.

Figure 3.11: Expenditure for development (% of GDP) *excluding* EU contribution (2004-6)



Note: No information is available for Bulgaria and Romania.

Source: Own calculations from Ismeri-Applica (Exhibit 35) and Eurostat GDP and COFOG data.

The differences between Figure 3.8 and Figure 3.11 are summarised in Table 3.1. This shows a dramatic reduction in EfD in many countries, most notably in Estonia, Latvia and Lithuania but also Poland, Portugal and Slovakia.

Table 3.1: The impact of EU Cohesion spend on Expenditure for Development (2004-6)

EfD as % of national GDP	EfD <i>including</i> EU Cohesion policy spending	EfD <i>excluding</i> EU Cohesion policy spending
4.5-6.5	CZ	CZ
3.5-4.5	AT EE ES GR HU IE IT LU LV MT	IE LU MT
2.5-3.5	BE CY FR LT NL PL PT SI	AT BE CY ES FR GR HU IT NL
1.5-2.5	DE DK FI SE SK UK	DE DK EE FI PL PT SE SI UK
Up to 1.5		LT LV SK

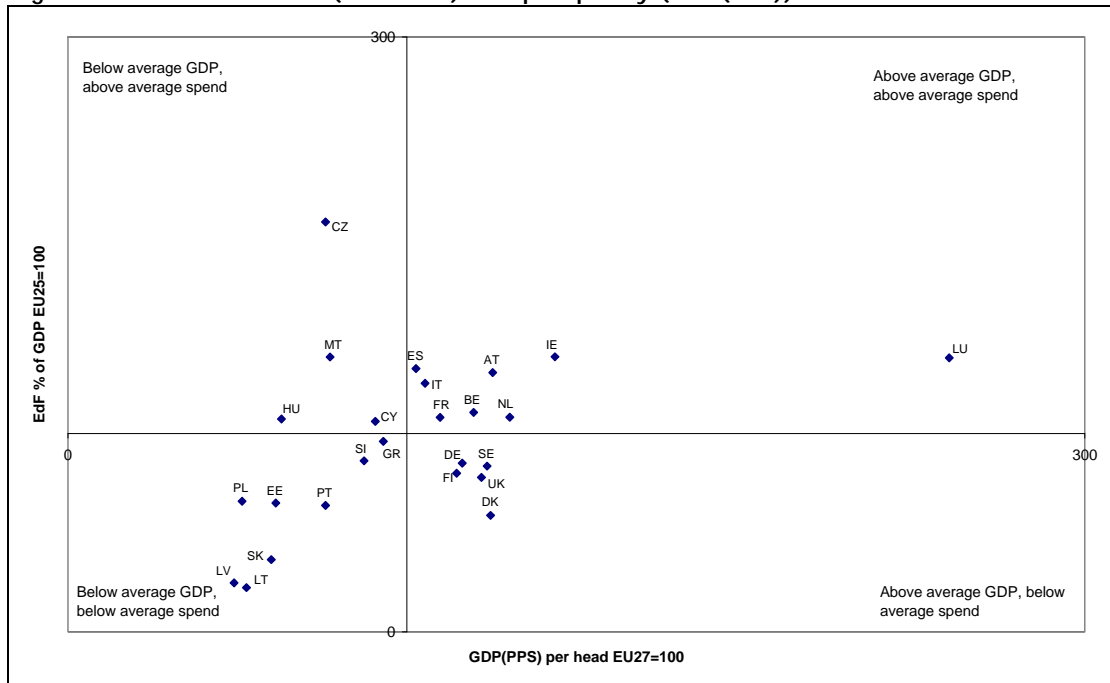
Source: Figure 3.8 and Figure 3.11.

In Figure 3.12 the EU contribution to expenditure for development is taken out of the total to provide an estimate of *national* EfD. This is set against GDP(PPS) per head in order to

provide a contrast with Figure 3.9, which *includes* the EU contribution. Figure 3.12 shows countries falling into four groups:

- those with above average GDP and above average national EfD: Austria, Belgium, France, Ireland, Italy, Luxembourg, Netherlands, Spain;
- those with above average GDP, but below average national EfD: Denmark, Finland, Germany, Sweden, the United Kingdom;
- those with below average GDP, but above average national EfD: Cyprus, Czech Republic, Hungary, Malta;
- those with below average GDP and below average national EfD: Estonia, Greece, Latvia, Lithuania, Portugal, Poland, Slovakia, Slovenia.

Figure 3.12: National EfD (% of GDP) and prosperity (GDP(PPS)) 2004-6



Note: Bulgaria and Romania are not covered; the Y axis uses the EU25 average so care should be taking in comparing Figure 3.9 and Figure 3.12.

Source: Own calculations from Ismeri-Applica (Exhibit 35) and Eurostat GDP and COFOG data.

The key point to note in considering Figure 3.9 and Figure 3.12 is the relative importance of the EU contribution for many countries with below average EU GDP per head; this is particularly so for Estonia, Latvia, Lithuania, Poland, Portugal and Slovakia, where the EU contribution to EfD exceeds 50 percent.

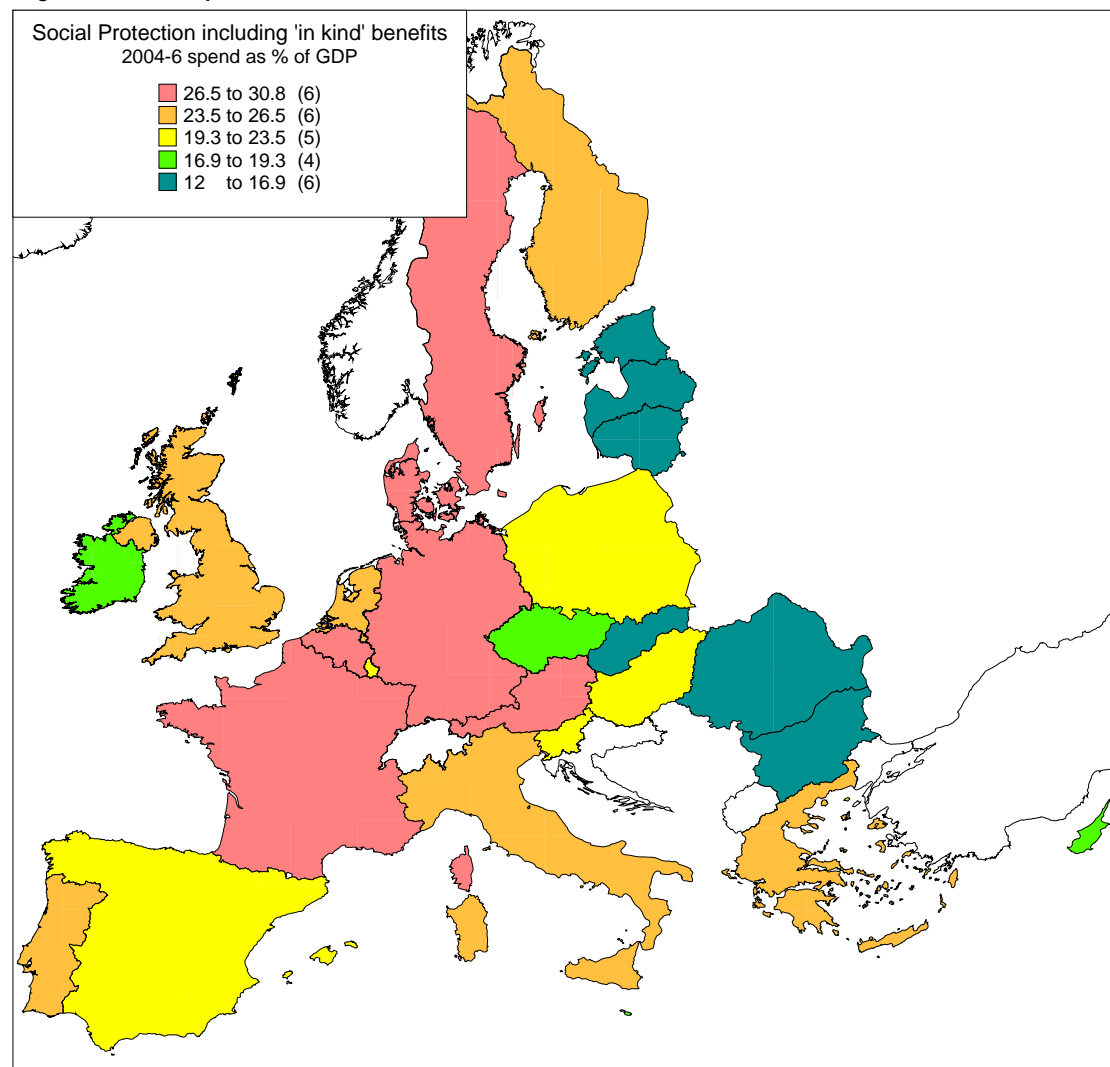
3.3.2 Social cohesion - social protection expenditure

The discussion of economic cohesion above drew on the work of Ismeri-Applica which has devised a COFOG-based definition of 'expenditure for development'. In practice, this includes many elements that are relevant also to social cohesion - such as gross fixed

capital formation in relation to housing and community amenities, health, recreation, culture and religion and education - largely reflecting the permeability of the terms 'economic' and 'social' cohesion. The focus of this section is more explicitly on the social dimension of government spending, in the form of social protection expenditure. However, it is important to stress, as elsewhere in this report, that there is no sharp distinction between the concepts of economic and social, and indeed territorial cohesion. Moreover, while social protection is used here as an indicator of the scale of spending on social cohesion, it is important to note that other areas of spend, such as that on healthcare and education are also crucial elements of social cohesion.

As discussed earlier, for all Member States, social protection constitutes the single largest category of government expenditure; however, the scale of spending varies widely between countries.

Figure 3.13: Expenditure on Social Protection as % of GDP (2004-6)



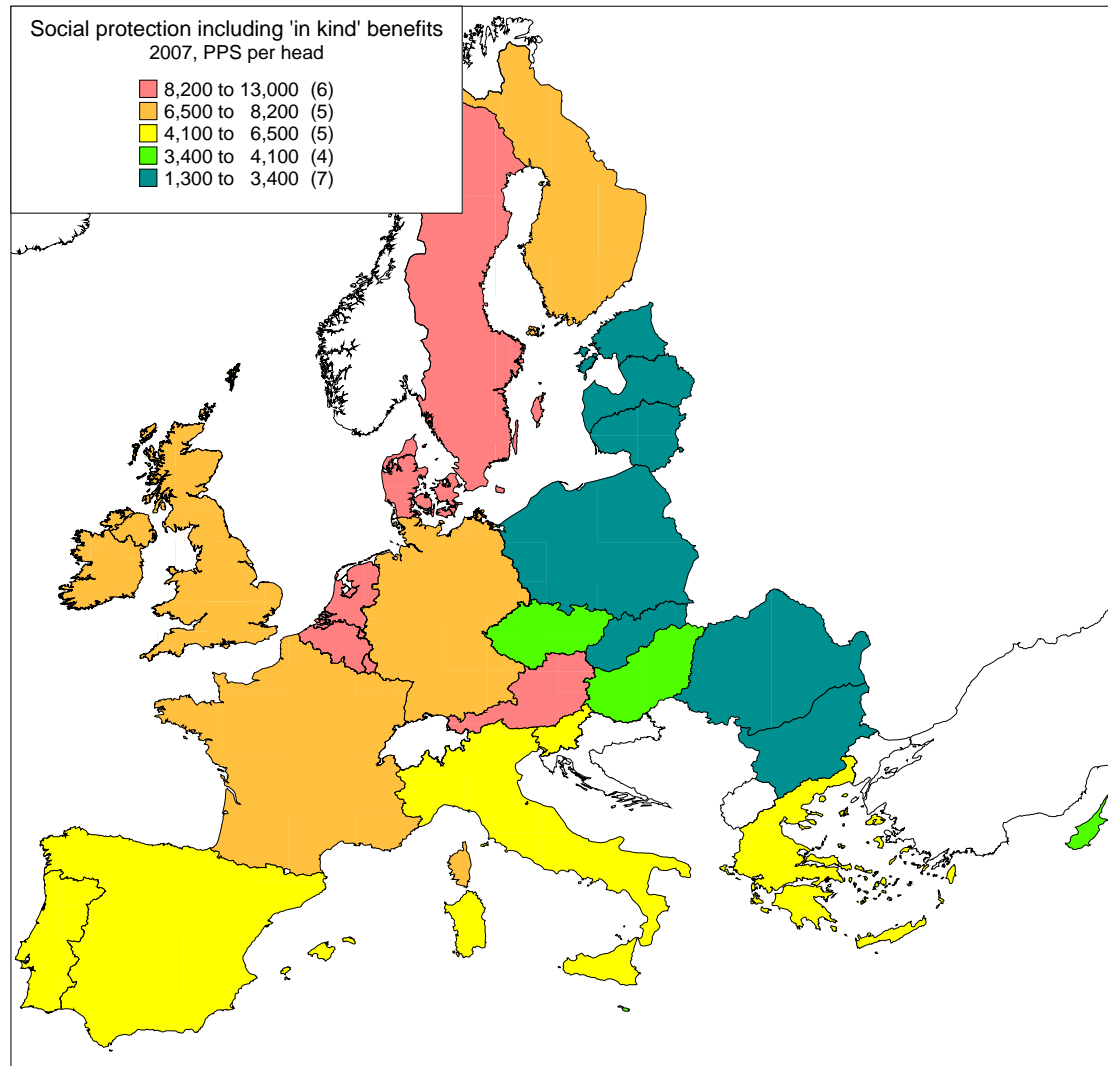
Note: This figure uses 2004-6 data to facilitate comparison with Figure 3.11; the most recent data available are for 2007 (see Figure 3.14).

Source: Eurostat.

As Figure 3.13 shows, expenditure on social protection ranges from over one-quarter of GDP (Austria, Belgium, Denmark, France, Germany, Sweden) to less than one-sixth of GDP (Estonia, Latvia, Lithuania, Slovakia, Bulgaria, Romania).¹⁷

In broad terms, it can be seen that less prosperous countries tend to spend a smaller proportion of GDP on social protection than more prosperous countries. This feeds through into sharp difference in levels of spend when expressed in PPS per head which is illustrated in Figure 3.14.

Figure 3.14: Expenditure on Social Protection in PPS per head (2007)



Source: Eurostat.

On this measure, Austria, Belgium, Denmark, Luxembourg, Netherlands and Sweden – spend at least twice as much in real terms as the new Member States (except Slovenia). Moreover, taking the extremes, expenditure in Luxembourg is almost ten times that of Romania even expressed in PPS per head. Figure 3.14 suggests that five broad categories of spend emerge:

¹⁷ The figures given in this section differ from those in Section 3.2.2 owing to differing accounting practices and protocols under COFOG and ESSPROS (European System of Integrated Social Protection Statistics) – see Eurostat (2007: 65 *et seq.*)

- Countries which spend in the range 8,200 to 13,000 PPS per head: **Austria, Belgium, Denmark, Luxembourg, Netherlands and Sweden;**
- those which spend in the range 6,500 to 8,200 PPS per head: **Finland, France, Germany, Ireland, United Kingdom;**
- those which spend in the range 4,100 to 6,500 PPS: **Greece, Italy, Portugal, Spain, Slovenia;**
- those which spend in the range 3,400 to 4,100 PPS: **Cyprus, Czech Republic, Hungary, Malta;**

and the remainder, which spend less than 3,400 PPS per head: **Bulgaria, Estonia, Latvia, Lithuania, Poland, Romania, Slovakia.**

There are clear risks in simply considering levels of spend across countries on an apparently comparable basis. The absence of a qualitative or contextual dimension aside, these data ignore the fact many contributions and benefits are subject to tax so that net expenditure may be significantly lower than gross figures; across the EU as a whole a pilot study by Eurostat estimates that around seven percent of benefits were clawed back through the fiscal system, but the actual rate may vary from zero (in Romania, Bulgaria, Czech Republic and Slovakia) to around 18 percent in the Netherlands (Eurostat, 2009).

In addition, systems of social protection vary widely between countries, being as they are a product of history, institutional and cultural norms as well as political and economic choices. Following the seminal work of Esping-Andersen (1990) on models of State welfare, various authors (for a review see Arts and Gelissen, 2002) have sought to refine and develop the original three-way classification of welfare systems, which comprised liberal welfare systems, social democratic welfare systems and corporatist welfare systems. While the exact classification remains contested, it is perhaps fair to conclude that a degree of consensus exists around the following four categories (CPB/SCB, 2003):

- *Liberal* welfare states where support is limited and the emphasis is on safety net provisions for those whose needs cannot be met in other ways. Ireland the UK fall into this category.
- *Social democratic* welfare states where the reduction of income differentials is a prime objective and all inhabitants are entitled to collective provisions for a large number of risks. Denmark, Sweden and Finland are in this group.
- *Corporatist* welfare states, which are characterised by schemes aimed at different occupational groups, and a more direct relationship between benefits and contributions than in social democratic and liberal systems. Austria, France and Belgium are the main examples of this.
- *Mediterranean* systems (see Ferrera, 1996), which have no clear safety net in the form of subsistence benefits, but relatively high pensions.

Policies in the new Member States are not explicitly classified here, although it has been noted that, in those belonging to the eastern bloc until 1989, social provisions made no distinction according to employment history or occupational status, but thereafter, the affordability of such schemes came under considerable pressure. In consequence, these social regimes have been overhauled and the benefits under them have been described as 'meagre' (CPB/SCB, 2003). In consequence, it has been argued that a distinctive eastern European welfare regime has emerged through the fusion of Bismarck social insurance, communist (universalism, corporatism, egalitarianism) and post-communist (market-based) features (Cerami, 2006). However, it has also been suggested that there is no real consensus on the classification of eastern European systems of social protection (Bohle, 2007).

3.4 The relative importance of national cofinancing of EU Cohesion policy

The discussion of national policies in subsequent sections of this report focuses on *current* objectives and instruments, so a consideration of the current EU Cohesion policy planning period is relevant, since this directly affects national expenditure commitments and the capacity for discretionary spend *not* tied to EU Cohesion policy. This is especially pertinent in the case of the new Member States where the 2007-13 programming period involved a substantial upgrading of the EU funding contribution.

A measure of the overall scale of EU Cohesion policy spending commitments is given in Figure 3.15. These figures include both national and EU cofinancing of EU Cohesion policy (but exclude private sector contributions). For ease of comparison, figures are on an annual average basis.¹⁸ As is well-known, commitment appropriations vary widely among the Member States, largely reflecting the interaction of national prosperity with the effects of the absorption cap.

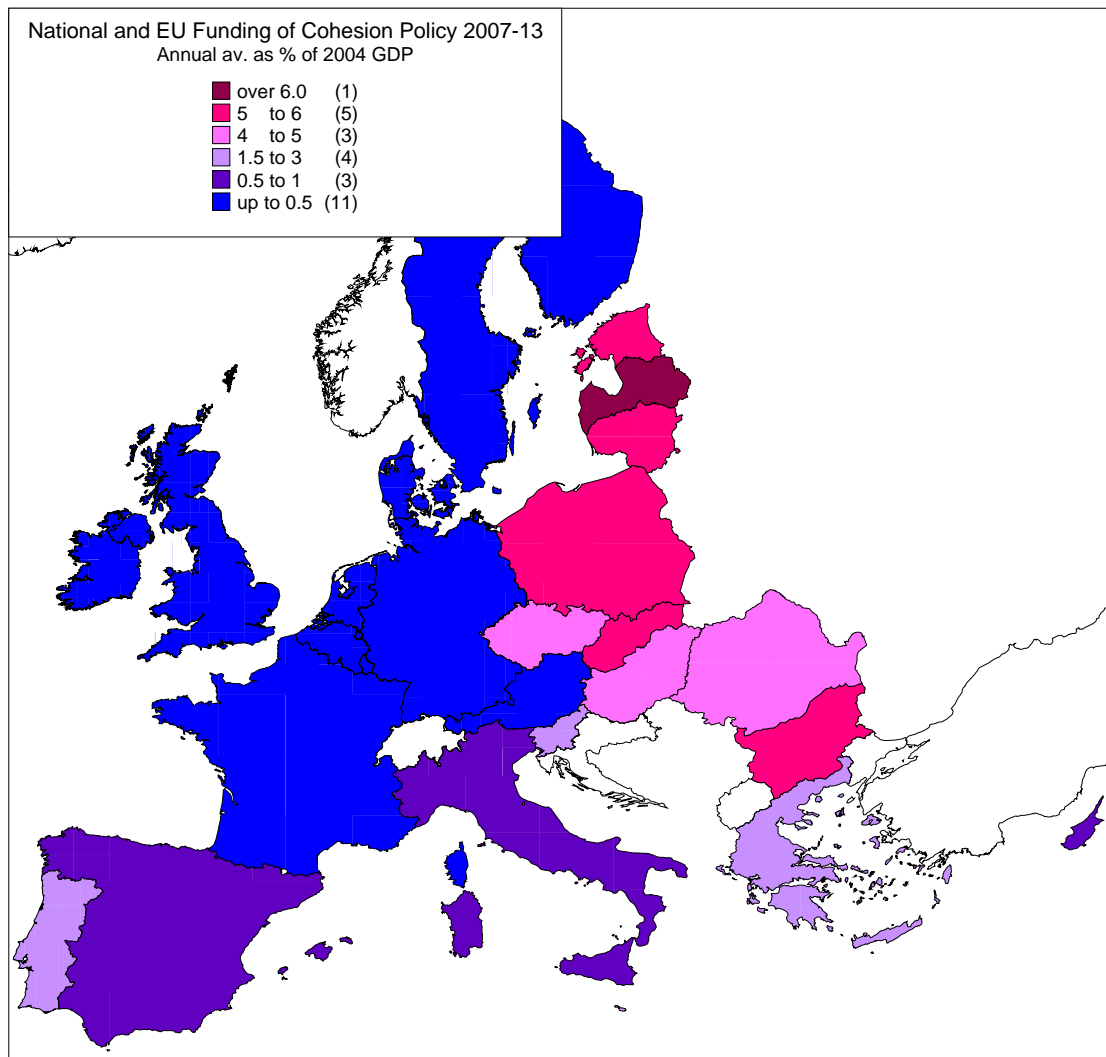
Figure 3.15 suggests that countries fall into six broad groups:

- those where Cohesion policy commitments are well under 0.5 percent of GDP (ranging from 0.06 percent in Denmark to 0.3 percent in Finland) and below 100 PPS per head (from 17 in Denmark to 77 in Finland); as well as **Denmark and Finland**, this grouping comprises **Austria, Belgium, France, Germany, Ireland, Luxembourg, the Netherlands, Sweden and the United Kingdom**;
- those where Cohesion policy commitments lie between 0.5 and 1 percent 0.5 percent of GDP and per capita allocations are in the range 100-200 PPS per annum, namely **Cyprus, Italy and Spain**;
- those where Cohesion policy commitments are between 1.5 and 3 percent of GDP and per capita commitments are in the range 350 to 500 PPS: **Greece, Malta, Slovenia and Portugal**;

¹⁸ Clearly, the *actual* profile of spending over the period in any given country varies widely, depending on transitional provisions and the impact of the absorption cap on transfers.

- those where Cohesion policy commitments lie in the range 4 to 5 percent of GDP: Czech Republic, Hungary and Romania; Note, however, that in PPS *per capita* terms expenditure in Romania is below 400 PPS, while that in Czech Republic and Hungary exceeds 600 PPS per head;
- those where Cohesion policy commitments lie in the range 5 to 6 percent of GDP and are around 600 PPS per head: Slovakia, Poland, Bulgaria, Estonia and Lithuania;
- Latvia, where expenditure exceeds 6 percent of GDP, although the *per capita* annual amount remains at around 600 PPS.

Figure 3.15: National and EU Cofinancing of Cohesion Policy 2007-13 (% of GDP)



Source: Own calculations from Com decisions, Eurostat and InfoREG data.

The level of EU co-financing of Cohesion policy varies widely between the Member States, with national public contributions ranging from over 50 percent of the total budgeted for (Ireland, Finland, Belgium, Italy) to less than 15 percent (Hungary, Czech Republic, Slovakia, Slovenia, Estonia, Latvia and Lithuania) - see Table 3.2.

Table 3.2: National Cofinancing of EU Cohesion Policy

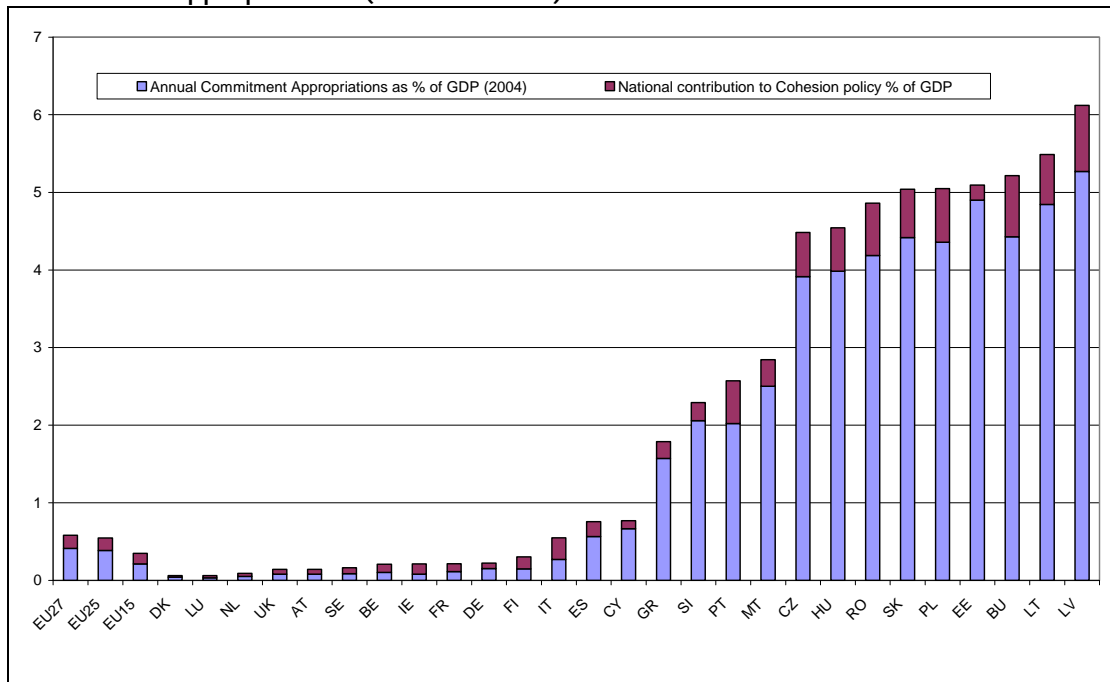
	Share of total	PPS per head per annum 2004 prices	Annual allocation as % of 2004 GDP (€)
Belgium	52.1	28.5	0.11
Bulgaria	16.9	63.1	0.79
Czech Republic	14.7	107.3	0.57
Denmark	29.1	4.8	0.02
Germany	28.4	15.8	0.07
Estonia	11.5	72.5	0.19
Ireland	63.2	42.5	0.13
Greece	21.8	80.0	0.22
Spain	29.4	51.2	0.19
France	41.0	21.4	0.10
Italy	52.1	67.1	0.28
Cyprus	15.5	24.0	0.10
Latvia	13.6	81.2	0.85
Lithuania	11.9	70.7	0.64
Luxembourg	45.3	15.7	0.03
Hungary	14.8	92.0	0.56
Malta	15.5	74.3	0.34
Netherlands	38.1	9.7	0.04
Austria	43.9	17.3	0.06
Poland	16.9	93.2	0.69
Portugal	23.5	98.7	0.55
Romania	16.9	60.1	0.68
Slovenia	14.3	61.3	0.23
Slovakia	14.6	90.7	0.63
Finland	52.8	40.5	0.16
Sweden	48.6	21.5	0.08
United Kingdom	44.2	16.9	0.06

Source: Own calculations from Com decisions, Eurostat and InfoREG data.

The significance of national cofinancing cannot just be measured in terms of overall share, but should also take account of the value of that contribution in *real* terms (expressed in PPS per capita in Table 3.2) and the *scale* of that contribution in relation to the national economy. In per capita PPS terms, national cofinancing ranges from less than 20 PPS per head per annum (Denmark, Netherlands, Luxembourg, Germany, United Kingdom and Austria) to over 80 PPS (Greece, Latvia, Slovakia, Hungary, Poland, Portugal and the Czech Republic).

Figure 3.16 shows the relative contributions of the EU and national budgets as a proportion of GDP. This shows that while the overall Cohesion policy budget is substantial in most of the new Member States, so too is their cofinancing of Cohesion policy as a proportion of GDP.

Figure 3.16: EU and national funding of EU Cohesion policy 2007-13 - annual average commitment appropriations (% of GDP 2004)



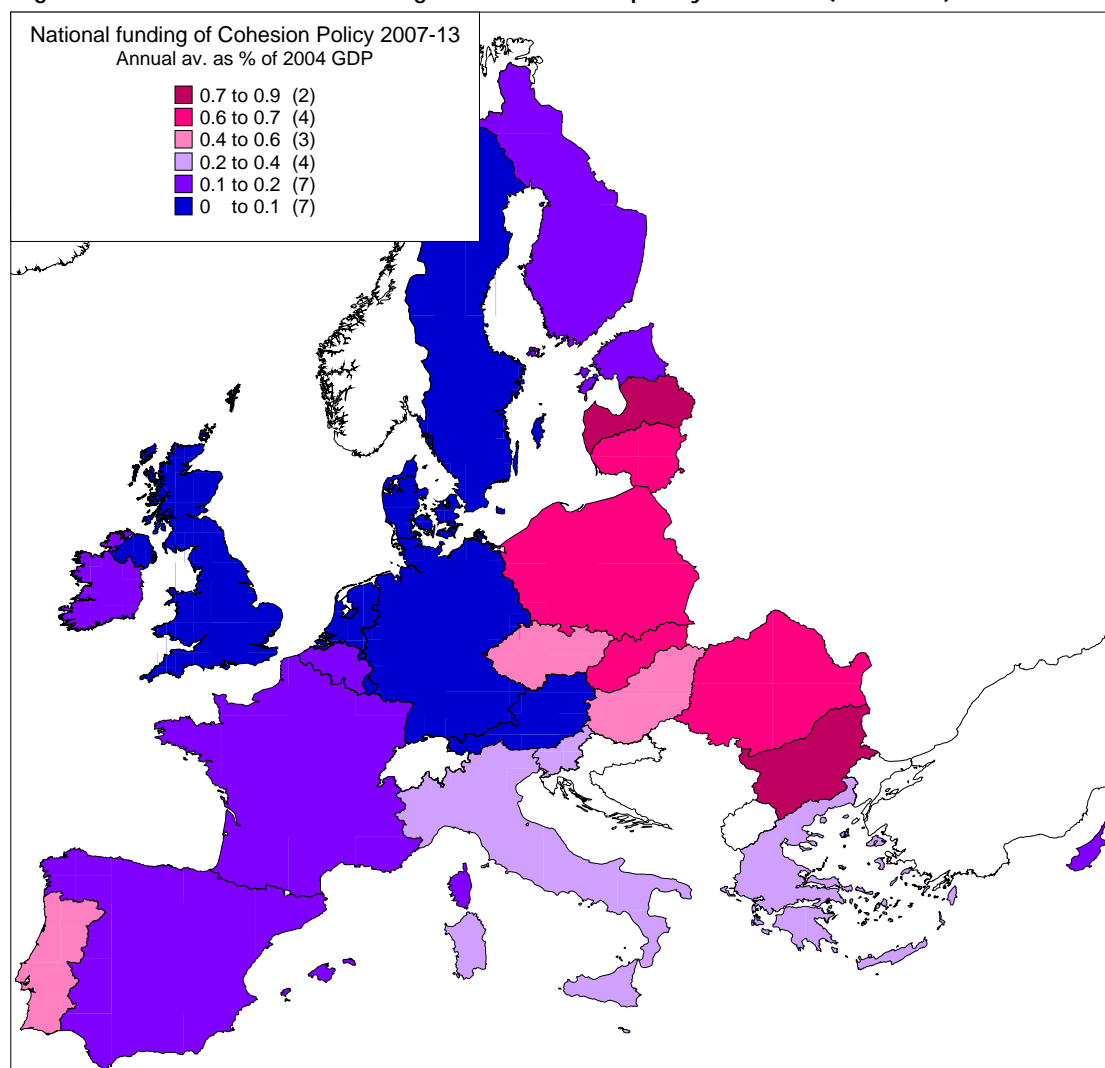
Source: Own calculations from Com decisions; Eurostat and Inforegio.

In this context, national cofinancing varies widely - from under 0.08 percent of GDP (Denmark, Luxembourg, Netherlands, United Kingdom, Austria, Germany, Sweden) to over 0.5 percent of GDP (Portugal, Hungary, Czech Republic, Slovakia, Lithuania, Romania, Poland, Bulgaria and Latvia). To set this in some perspective, the relative contribution of Latvia to Cohesion policy is 40 times that of Denmark.

Figure 3.17 suggests six broad groupings of country based on national cofinancing of EU Cohesion policy expressed as a percentage of GDP:

- **Bulgaria and Latvia** where national cofinancing amounts to over 0.7 percent of GDP;
- **Lithuania, Poland, Romania and Slovak Republic** where national cofinancing is between 0.6 and 0.7 percent of GDP;
- **Czech Republic, Portugal and Hungary** where national cofinancing is between 0.4 and 0.6 percent of GDP;
- **Italy, Greece, Malta and Slovenia** where national cofinancing is between 0.2 and 0.4 percent of GDP;
- **Belgium, Cyprus, Estonia, Finland, France, Ireland, Spain** where national cofinancing is between 0.1 and 0.2 percent of GDP;
- and the remaining countries: **Austria, Denmark, Germany, Luxembourg, Netherlands, Sweden, United Kingdom**, where cofinancing amounts to less than 0.1 percent of GDP.

Figure 3.17: National cofinancing of EU Cohesion policy 2007-13 (% of GDP)



Source: Own calculations from Com decisions, Eurostat and Inforegio data.

Of course, differences in these relative contributions are partly a function of national policy choices about which policy instruments and initiatives best fit with EU Cohesion policy priorities - this is particularly so in the more prosperous countries where there is considerably more scope for discretionary national spend unconnected with EU Cohesion policy. However, in the less prosperous countries, national cofinancing of Cohesion policy not only has significant budgetary implications, but also reduces the scope to design and fund purely domestic measures aimed at cohesion.

3.5 Concluding points

The aim of this chapter has been to provide some context for the more detailed discussion of national cohesion policies which follows. Three key dimensions have been considered: (i) the overall scale of public spending and its breakdown by function and tier of government; (ii) national spending on economic and social cohesion; and (iii) the relative importance of national and EU spending on EU cohesion policy in the current planning period.

(i) *Scale and patterns of total government spending*

The *scale* of public spending overall varies widely between countries, ranging from under 35 percent of GDP in 2006 (Estonia, Ireland, Lithuania) to over 50 percent (Denmark, Hungary, France, Sweden), with less prosperous countries tending to have lower spending as a proportion of GDP than more prosperous one. In PPS *per capita* terms, the correlation between prosperity and levels of spend is marked, with PPS *per capita* spending tending to increase with prosperity. From a cohesion perspective, the implications of this are considerable, given the role that public transfers play in reducing regional income inequalities (European Commission, 1998).

Patterns of public spending *function* also vary between countries. However, in all Member States, social protection is the single largest item of expenditure; in practice, the differences between countries in public expenditure as a proportion of GDP are largely accounted for by differences in spend on social protection.

Analysis of spending by *tier* of government reveals some significant differences between countries. In particular, in Belgium, Germany, Spain and Austria a significant share of government expenditure is accounted for by the so-called 'state' level, referring to the regions, *Länder* and Autonomous Communities in the countries concerned. The involvement of this tier is, in turn, reflected in the policy implementation mechanisms discussed in Chapter 5.

(ii) *National spending on economic and social cohesion*

The overall aim of the study is to consider *the contribution of Member State policies to cohesion*. This task is complicated by the absence of a concrete or agreed definition of cohesion. Nevertheless, the concept of Expenditure for Development (EFD) is a useful tool in estimating spend on *economic cohesion*; at the same time, the analyses of social protection data under ESSPROS offer a proxy for *social cohesion* spending.

Spending on *economic development*, including both national and EU contributions, typically accounts for between two and five percent of GDP. In terms of overall EFD, countries can be divided into broad two groups:

- those that spend more than the EU average: Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Estonia, France, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovenia, Spain; and
- those that spend less: Denmark, Finland, Germany, Slovakia, Sweden and the United Kingdom

However, there are wide variations in *national* levels of spend ie. excluding the EU contribution through Cohesion policy. Once this is deducted, the groups are:¹⁹

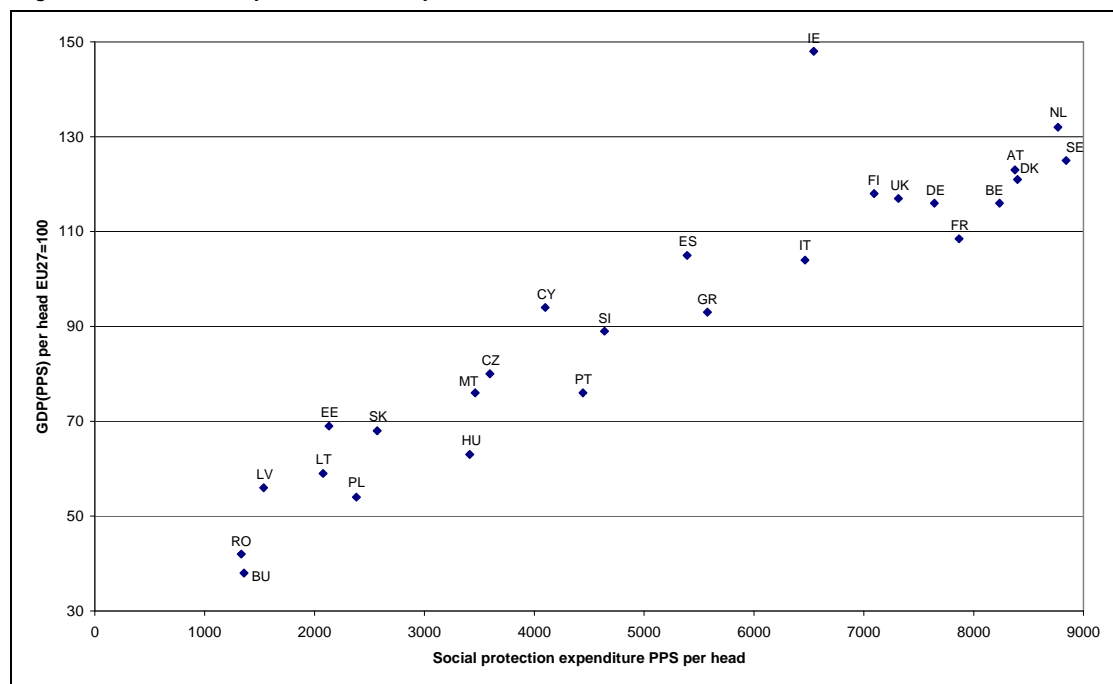
¹⁹ No information is available for Bulgaria and Romania.

- above average spending on EfD: Austria, Belgium, Cyprus, Czech Republic, France, Hungary, Ireland, Italy, Luxembourg, Malta, Netherlands, and Spain; and
- below average spending on EfD: Denmark, Estonia, Greece, Finland, Germany, Latvia, Lithuania, Poland, Portugal, Slovakia, Slovenia, Sweden, and the United Kingdom.

The key point to note here is the relative importance of the EU contribution to EfD for many less prosperous Member States; this is particularly so for the Baltic countries, Poland, Portugal and Slovakia, where the EU contribution to EfD exceeds 50 percent. In short, *EfD generally appears to be higher as a percentage of GDP in poorer countries than in richer ones; on the other hand, for most poorer countries this ceases to be the case when the EU contribution to EfD is removed.*

Spending on *social protection* constitutes the single largest item of public expenditure in all countries; it dwarfs EfD. However, it varies widely as a proportion of GDP from over one-quarter (Austria, Belgium, Denmark, France, Germany, Sweden) to less than one-sixth (the Baltic countries, Slovakia, Bulgaria and Romania), with more prosperous countries tending to spend more than less prosperous ones. This is illustrated in Figure 3.18.

Figure 3.18: Social protection expenditure and GDP (2007)



Note: Luxembourg is excluded for reasons of scale - GDP(PPS) is equivalent to 275 percent of the EU average and spend on social protection amounted to almost 13,000 PPS per head in 2007.

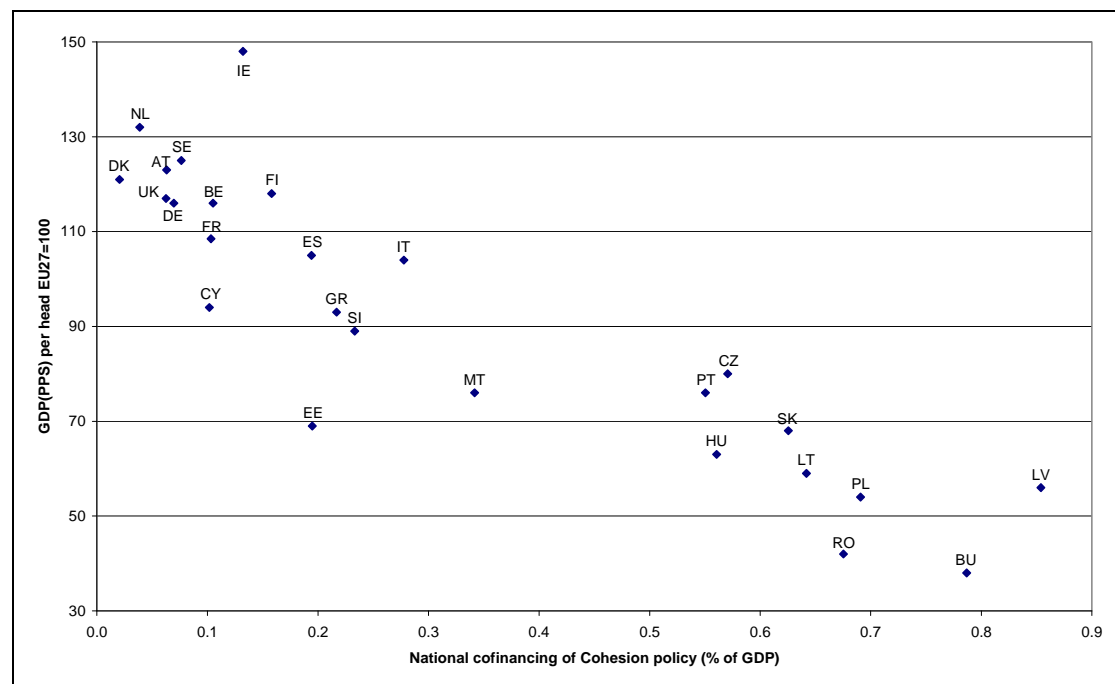
Source: Own calculations from Eurostat data.

(iii) National co-financing of Cohesion policy 2007-13

As is well-known, the scale of EU Cohesion policy funding (national and EU combined) varies widely between countries - from less than 0.1 percent of GDP for example, in, Denmark, Luxembourg and the Netherlands - rising to over five percent in countries such as Poland,

Bulgaria and the Baltic countries. However, a fact that is less frequently remarked upon concerns the wide differences in the scale of *national* co-financing of EU Cohesion policy. This ranges from around 0.020 percent of GDP in Denmark, to almost 0.9 percent of GDP in Latvia; *in other words, the relative contribution to cofinancing EU Cohesion policy in Latvia is 40 times that required in Denmark*. In general, as Figure 3.19 shows, national cofinancing of EU Cohesion policy is inversely correlated with prosperity - poorer countries commit a significantly greater proportion of GDP to cofinancing Cohesion policy than do richer countries.

Figure 3.19: National cofinancing of EU Cohesion policy 2007-13 (annual av as % of GDP 2004)



Note: Luxembourg is excluded for reasons of scale - GDP(PPS) is equivalent to 275 percent of the EU average and national cofinancing of EU Cohesion policy is an annual average of 0.03 percent of GDP.

Source: Own calculations from Com decisions; Eurostat and Inforegio.

In sum, EU Cohesion policy funding varies widely between Member States, with poorer countries receiving substantially higher allocations; that said, *national* co-financing of EU programmes represents a significant proportion of GDP in the poorer Member States. EU Cohesion policy co-financing is not a significant drain on public finances in the more prosperous Member States, where funding is often used to 'top up' existing domestic programmes, which are themselves driven by domestic priorities. Moreover, EFD in the more prosperous countries includes much expenditure that is not co-funded - in other words, in such countries, EU Cohesion policy is the 'tip of the iceberg' of public investment. The reverse is true in many of the less prosperous Member States. Here, Cohesion policy pervades many aspects of public investment and Commission priorities may dominate the agenda. Given the volume of funding involved, national policymakers generally have to tailor programmes to meet Commission demands. Moreover, the co-financing of EU Cohesion policy is a significant item of national expenditure, leaving little scope for purely domestically-driven initiatives.

4. NATIONAL POLICY INSTRUMENTS TO PROMOTE COHESION

4.1 Introduction

Member State policies aimed at promoting economic and social cohesion have undergone a profound shift over the past two to three decades, a process which has been frequently described as a change in the paradigm of territorial development. These policies have been subject to extensive country-specific analysis (see, for example: Adams *et al*, 2003; Ancien, 2005; Devos *et al*, 2005; Fabbrini and Brunazzo, 2003; Fothergill, 2005; Fürst, 2006; Gren, 2002; Halkier, 2001; Kunnunen, 2004; Oscarsson, 2000; and Priemus, 2004) and comparative research²⁰ on which this study builds. Such research suggests that the main economic policies aimed at promoting economic and social cohesion are three-fold: *narrow regional policies*, often targeted at designated aid areas or locations with specific characteristics; *broader policies for territorial development* which, while generally available across all regions, take a region-specific approach, often via regional strategies and programmes; and those *sectoral policies* which have an explicit or implicit economic cohesion dimension. These different policy approaches are discussed further in the sections which follow.

4.2 Narrow regional policies with an explicit cohesion dimension

There are a number of policy instruments that fall under narrow regional policies, most notably regional incentive schemes, but also targeted development programmes and support provided to areas facing specific development issues. Looking across countries (see Figure 4.1), virtually all Member States operate regional aid measures. In addition, around half of them implement regional development programmes targeted at specific regional issues. A limited number provide further support in situations of economic restructuring, for language and ethnic minorities, or through targeted solidarity transfers. With regard to spending patterns, apart from regional aid, it is difficult to provide a comparative picture of Member State's expenditure on policy instruments and, in the discussion that follows, data estimates gathered in the country reports are used principally for illustrative purposes.²¹ What can be said is that in some countries, such as **Germany** or **Spain**, regional policy expenditure is very targeted and concentrated in geographical terms on a few main policy instruments, while in other cases, such as **France**, funding is spread across a wide variety of support mechanisms. In part, this reflects the nature of the regional problem and the importance of national regional policy (see Section 2.4.2).

²⁰ An annual survey and assessment of national regional policies in Europe is undertaken by EPRC under its EoRPA research programme <http://www.eprc.strath.ac.uk/eorpa/default.cfm>. Comparative European research has also been conducted under the EPRC 'benchmarking regional policies' project <http://www.eprc.strath.ac.uk/benchmarking2/login.cfm?accessdenied=%2Fbenchmarking2%2Fdefault%2Ecfm>. Further comparative information on regional policies is available from OECD reports and country studies. Other comparative regional policy research has tended to focus on groups of countries (e.g. the periodic surveys of Nordic regional policies by Nordregio or the EUROREG studies of the regional policies of Visegrad states).

²¹ In Part II of this report, available expenditure data on policy instruments are provided for all Member States (see Figure 6 in each country report). However, it should be noted that the degree of comparability between countries is relatively low.

As discussed in Section 2.4.1, there is an interesting mix of cohesion objectives pursued in the different Member States. Figure 4.1 and the discussion that follows gives an overview over the various narrow regional policy instruments alongside relevant Member State examples.²²

Figure 4.1: Overview of narrow regional policy instruments

<i>Instrument type</i>	Regional aid	Regional development programmes	Economic restructuring	Language/ethnic minorities	Solidarity transfers
<i>Member State examples</i>	ALL MS (except DK)	BU CZ CY DE FI FR GR HU LV NL SI MT	CZ FI FR PL	FI IE SE SI	DE ES PT

Source: Own elaboration based on Part II country reports.

4.2.1 Regional aid schemes

Regional aid for firms, which can take various forms (eg. investment aid, tax allowances), mainly contributes to economic cohesion. The degree to which aid schemes are actually conducive to cohesion varies, notably in line with aid map coverage and differentials in award rates. In most EU15 countries, the aid map restricts government support for large firms and therefore explicitly encourages investment in problem regions. Here, the spatial impact of support depends on whether the focus of the aid map is on a limited number of problem regions (eg. Germany), or whether assisted areas are spread thinly across the country (eg. France). The situation is different in most of the EU12, since they are entirely covered by the aid map with usually only minor differentials in award rates between regions. In some cases, it is therefore unclear to what extent such measures actually favour problem regions in practice (e.g. Poland, Romania, Slovenia).

However, there are Member States, where the capital city is excluded from the aid map (Czech Republic, Portugal, Slovakia), or where it falls under Article 107(3)(c) coverage,²³ thus receiving much lower award rates than the rest of the country (Hungary). Another example of differentiated support is Cyprus, with the aid map covering only 50 percent of the population in 'c' areas. There are also cases, where the aid intensity takes account of socio-economic development levels, such as in the Czech Republic, where new investments in regions with high unemployment can qualify for higher award rates.

Regional aid can also contribute to territorial cohesion, notably concerning aid targeted at sparsely-populated areas, where the policy aim is to retain population and to maintain balanced settlement structures (Finland, Sweden). A territorial dimension is also visible in countries where the regional aid map provides for the entire coverage of, or higher award

²² Please note that only those instruments and initiatives are considered which are actually operational.

²³ Hereafter referred to as 'c' areas.

rates in, island regions (France, Greece, Spain). It is also of note that, while there has been no national regional aid scheme in Denmark since 1991, special provision has been made to provide regional aid for small non-bridge islands (under the Structural Funds programme).

Looking at regional aid spend across the EU, the European Commission scoreboard on State aid suggests that Germany, with €2,943 million per annum, spends 32 times as much on regional aid as does Romania (€92 million per annum) and that this amounts to 24 times more per head of assisted area population in Germany compared with Romania; at the same time, levels of spend as a proportion of GDP are broadly comparable (see Figure 4.2).²⁴

Figure 4.2: Regional aid spending indicators (average 2002-2007)

	% of total aid to industry and services	Annual average spending - €m	% of GDP	€ per head of assisted area population
EU27	18.5	9757	0.0849	37.1
EU15	18.8	8790	0.0816	55.2
NMS12	19.5	967	0.1343	9.4
Austria	8.7	82	0.0326	36.5
Belgium	23.0	207	0.0676	64.8
Denmark	0.4	5	0.0021	5.0
Finland	10.7	60	0.0370	28.0
France	19.3	1359	0.0757	76.6
Germany	17.6	2943	0.1275	104.6
Greece	79.9	333	0.1603	30.0
Ireland	21.8	116	0.0709	32.3
Italy	25.7	1376	0.0931	55.7
Luxembourg	33.7	20	0.0645	146.2
Netherlands	5.0	58	0.0112	28.2
Portugal	3.7	57	0.0360	5.9
Spain	29.7	1213	0.1255	38.2
Sweden	6.0	109	0.0346	76.7
United Kingdom	20.5	807	0.0424	45.2
Cyprus	5.3	9	0.0627	12.7
Czech Republic	29.9	185	0.1722	18.7
Estonia	24.9	3	0.0253	2.2
Hungary	25.9	233	0.2502	23.0
Latvia	66.5	18	0.1056	7.7
Lithuania	28.1	13	0.0540	3.7
Malta	~	~	~	~
Poland	17.2	246	0.0967	6.5
Slovakia	58.7	121	0.3052	22.9
Slovenia	18.7	26	0.0843	12.8
Bulgaria	45.5	22	0.0886	2.8
Romania	8.8	92	0.1003	4.3

Source: Wishlade 2009: 25/26.

²⁴ However, considerable caution should be exercised in drawing conclusions from such highly aggregated data; aside from definitional issues, the comprehensiveness (*de minimis* and Structural Fund expenditure is excluded) and precise scope of the data are uncertain. See Wishlade (2009).

This is in line with the earlier observation on the higher capacity of more prosperous Member States to address regional problems (see Section 2.4.2(ii)). Based on scoreboard data, countries appear to fall into the following two groups:

- countries with average regional aid expenditure as a percentage of GDP (**Bulgaria, Slovenia**) or above (from highest to lowest: **Slovakia, Hungary, Czech Republic, Greece, Germany, Spain, Latvia, Romania, Poland, Italy**); and
- Member States with lower than average regional aid expenditure as a percentage of GDP; most of which are part of EU15 (from lowest to highest: **Denmark, Netherlands, Austria, Sweden, Portugal, Finland, UK, Luxemburg, Belgium, Ireland, France**), but there are also examples from the EU12 (**Estonia, Lithuania, Cyprus**).

It appears, however, problematic to relate scoreboard data to the country groupings identified in Section 3.3.1, since there is no strong correlation between overall levels of EfD and expenditure on regional aid. This is perhaps not surprising given the generally very small commitments on regional aid, set against EfD; at the same time, EfD comprises a range of public expenditures and, as noted earlier, while the concept has been designed to be broadly comparable with EU Cohesion policy expenditure, it does not in any meaningful sense equate to national regional policy expenditure.

4.2.2 Targeted regional development programmes

In addition to regional aid measures, targeted development initiatives (often in the form of specific regional programmes) are in place in a number of Member States, frequently promoting more than one cohesion dimension. The areas covered by such measures often overlap to a considerable degree with designated aid areas (eg. **France, Germany, Netherlands**). Economic cohesion is the main objective for most of these programmes, which often consist of a combination of instruments (eg. investment aid, infrastructure support). There is also a strong social component, notably regarding initiatives with a more or less explicit solidarity objective in countries with major internal disparities (**Germany, Spain**). In the case of Germany, a 'Solidarity Pact' is in place. This is a large scale instrument and part of the funding (one third) is aimed at improving competitiveness, employment and infrastructure in the new *Länder* (the other two thirds are transferred directly to the *Länder* governments, see Section 4.2.5). This funds a range of federal programmes, notably in the fields of transport infrastructure and business aid. A social dimension is furthermore integrated in some of the smaller-scale development programmes (**Greece, Finland, Malta, Slovenia**). There are also examples of programmes with a territorial cohesion component, for example concerning the support programme of Corsica in France. In Hungary, support is provided to a number of 'seeded areas' across the country, which are considered to be of strategic importance. These have to be homogenous economically, socially or environmentally, justifying uniform development and thus contributing to several cohesion dimensions.

Looking at funding committed to targeted development initiatives, Figure 7 data²⁵ suggests that expenditure is particularly high in **Germany** (an estimated 0.14 percent of GDP in 2005-19). With respect to smaller-scale development programmes, commitments are at an estimated 0.008 percent of GDP for the Corse region in **France** in 2007-13, slightly higher for the Pindos programme in **Greece** (0.01 percent of GDP in 2005-10),²⁶ and amounting to 0.035 percent of GDP in 2010 in **Finland** in support of the self-governance experience of the Kainuu region.

Problems faced by rural areas are also tackled through specific programmes in a number of countries, with a view to enhancing economic and social cohesion (**Cyprus, Czech Republic, Latvia**). Some of these initiatives show clear elements of territorial cohesion in that they pursue the objective of overall balanced development. They are mainly delivered by targeted programmes or preferential treatment for islands and coastal regions, mountain areas and border regions (**Bulgaria, France, Greece, Malta, Spain**). Lastly, programmes have been launched in a few cases to compensate for damage caused by natural disasters. Support chiefly consists in rebuilding damaged premises and infrastructure in the municipalities affected, thereby contributing to social cohesion. In the **Czech Republic**, considerable funding has been mobilised in support of regions hit by severe floods (0.36 percent of GDP in 2009). A longer-term economic development programme was put in place in **Slovenia** to assist a region devastated by successive earthquakes with commitments amounting to around 0.04 percent of GDP in 2007-13.

4.2.3 Economic restructuring

In a number of Member States, *ad hoc* support is provided in areas facing economic restructuring. The overall objective is the promotion of economic cohesion, but there is also an important social dimension with respect to employment prospects of the local population. This can relate to isolated cases of firm closures with a significant impact on jobs and the local economic climate, often occurring in old industrial regions or regions dependent on a single big employer (**Finland, France, Poland**). Measures can also be taken when a whole sector is in decline, affecting several locations across the country, as with the recent closure of military bases (**Czech Republic, France**). Expenditure on restructuring measures, as emerges from Figure 7 data, is mostly very low, ranging from around 0.005 of GDP in the **Czech Republic** and **France** (expenditure on defence restructuring and restructuring measures more generally taken together) to an average of 0.015 percent of GDP in **Finland** targeted at sub-regions facing abrupt structural change.

²⁵ See Figure 7 in each country report in Part II. Clearly, some caution should be exercised in comparing these levels of spend as they relate to national not subnational GDP. However, there are practical obstacles, not least of data availability at the relevant subnational unit, to making more detailed comparisons.

²⁶ Please note that, in the current crisis context, funding for the Pindos programme has come under pressure.

4.2.4 Language and ethnic minorities

In a few Member States, policy support is oriented towards target groups in addition to target territories. Such policies have both an economic and a social dimension. In Ireland, for example, the language community of Gaelic speakers receives specific attention based on dedicated business support measures. Other Member States choose to provide particular support to minority groups, eg. through local infrastructure and job creation (Finland, Sweden, Slovenia). Support is typically quite low, amounting to around 0.01 percent of GDP in Slovenia in support of Roma and indigenous populations and slightly more in Ireland (0.018 percent of GDP in 2009).

4.2.5 Solidarity transfers

In addition to the above instruments, a few countries operate significant solidarity transfers with explicit development dimensions. In contrast to targeted initiatives mentioned under Section 4.2.2, funding is allocated to selected local authorities who can use it for regional development more broadly. These transfers complement standard fiscal equalisation systems operating across the country (see Section 4.3.4).

In Spain, the 'Inter-Territorial Compensation Fund' (ICF) is allocated to regional governments in 11 out of 17 regions for public investment expenditure and, specifically, for the realisation of projects of a local, *comarcal* (grouping of municipalities), provincial or regional nature that contribute to the reduction of interregional disparities in income and wealth. Expenditure amounted to 0.12 percent of GDP in the 2005-09 period. The country's fiscal equalisation system is also designed so that it *explicitly* addresses regional disparities. In addition to a basic Guarantee Fund, two 'Convergence Funds' are in place which aim to promote convergence between regions in terms of per capita GDP and funding: first, the Cooperation Fund, which is targeted at less-developed regions (with GDP per capita below 90 percent of the national average) and those with unfavourable population dynamics (in terms of low growth and density); second the Competitiveness Fund, which aims to raise increase the resources to those regions that receive relatively less funding per capita through the system (ie. the more developed regions).

In Germany, as part of the 'Solidarity Pact', additional federal transfers take place to increase the budgets of the eastern *Länder* governments, mainly focused on infrastructure (an estimated 0.29 percent of GDP in 2005-19). Also, the eastern *Länder* are favoured under the standard fiscal equalisation system (the poorer *Länder* received between 0.12 and 0.16 percent of annual GDP in 1995-2009).

In both Spain and Germany, instruments have an economic as well as a social dimension. In addition to this, mechanisms in Portugal and Spain have a clear focus on territorial cohesion, with island regions receiving special treatment.

4.3 Broad regional policies with a cohesion dimension

Broad, 'all-region' policies, which are not driven by EU Cohesion policy, have chiefly developed in the more prosperous EU15 Member States (see Figure 4.3). They mainly focus on economic cohesion, in the sense of providing support for the business environment and

cluster development (although clearly there is a social dimension to this in so far as the creation of employment opportunities is also an important policy aspect). Objectives of regional and local development programmes, another broad policy instrument, are more varied. In some countries, they are used to implement measures in the field of business and cluster support (Finland, Netherlands), whereas in others, notably in EU12 Member States and Cohesion countries, there is a greater focus on social cohesion, notably in terms of balanced infrastructure and service provision. Regarding the issue of whether the all-region nature of such measures contributes to or detracts from cohesion, the role of cohesion considerations in allocating funding is significant. According to a recent study,²⁷ such policies tend to favour weaker regions. Furthermore, it needs to be noted that, in countries with federal or highly-devolved systems (Austria, Belgium, Germany, Spain), the regions operate their own economic development strategies and business support policies in addition to any central initiatives.

Figure 4.3: Overview of broad regional policy instruments

<i>Instrument type</i>	Business environment	Strategic clusters and sectors	Regional/local development programmes	Fiscal equalisation
<i>Member State examples</i>	AT DK IE LU NL UK	FI FR NL	EE FI FR GR HU IT LV NL PL SE SI	ALL MS

Source: Own elaboration based on Part II country reports.

4.3.1 Support for the business environment

In a number of cases, support for the business environment is mostly provided *without* an explicit cohesion objective (Austria, Belgium (Flanders), Luxembourg, Netherlands). However, there are also examples of approaches with in-built provisions in favour of disadvantaged areas. In Ireland, for example, development agencies are required to achieve the best possible regional balance in their investments, and some target specific regions (such as *Údarás na Gaeltachta*, Shannon Development and the Western Development Commission). In the United Kingdom, resources to English Regional Development Agencies have, before their abolition following the May 2010 general election, been allocated based on a complex formula containing nine domains which have a pro-equity weighting; in Scotland, a dedicated development agency is in place for the Highlands and Islands. Similarly, in Denmark, policy areas and funding mechanisms favour peripheral areas and thus territorial cohesion in that at least 35 percent of programme-based expenditure must benefit designated peripheral areas (which hold 10 percent of the national population).

²⁷ Yuill, D., Ferry, M. and Vironen, H. (2008) *New Policy Frameworks, New Policy Approaches: Recent Regional Policy Developments in the EU and Norway*, EORPA Paper 08/1, University of Strathclyde, Glasgow.

Available expenditure data (see Figure 7 data in Part II country reports) suggests that, even in Member States with a generally low profile of regional policy, central-level business aid expenditure outside regional aid is not very prominent (eg. in **Denmark**, national expenditure on business development was 0.016 percent of GDP in 2008, and in **Austria**, centrally-provided SME aid amounted to 0.084 percent of GDP in 2009). This may be due to the nature of instruments, which are often 'soft' measures (eg. in the field of services and advice) as opposed to 'hard' infrastructure measures. In some cases, it can also be linked to the complementary role of the central level, with sub-national authorities providing the bulk of the funding in this field (in **Denmark**, regional and local authorities spent 0.028 percent of GDP on business development in 2008, while the *Länder* in **Austria** mobilised 0.361 percent of GDP in 2009 for economic development more broadly).

4.3.2 Development of strategic clusters and sectors

The development and support of clusters in strategic areas is a policy feature in a few countries. While these initiatives do not *explicitly* pursue cohesion objectives but rather the country's overall competitiveness, they may indirectly contribute to cohesion by promoting regional strengths and capacity-building. Targeted support is provided to firms in the context of the 'Centre of Expertise' programme in **Finland** and to firms participating in 'Competitiveness Poles' in **France** and *Wallonie* in **Belgium**. Under the 'Peaks in the Delta' initiative in the **Netherlands** there has been a slightly higher degree of territorial targeting with 27 percent of the budget flowing to the north over the 2006-10 period.

Budgets, as reflected in the Part II country reports, vary, and it is important to take account of the overall number of clusters supported when looking at expenditure data. In **Finland**, funding committed to 21 Centres of Expertise amounts to 0.005 percent of GDP in 2010, in the **Netherlands**, funding of 0.014 percent of GDP is channelled to 22 'Peaks' in 2007-13 to foster and take advantage of specific regional development opportunities, whereas in **France**, 72 Competitiveness Poles are supported by an estimated 0.026 percent of GDP in 2009-11.

4.3.3 Regional and local development programmes

Overarching programmes targeted at enhancing regional development across the country are a common feature in a number of Member States. They are initiated by the central State and involve the regions to different degrees depending on their competences (see also Section 5.4). Such programmes can be rather narrowly defined, as is the case in **Finland**, where annual regional development funding is allocated to the regional councils in support of a number of initiatives in the field of business support (eg. the Centre for Expertise programme, the improvement of regional competitiveness and networking). The **Netherlands'** Peaks in the Delta are implemented through six regional programmes, with funding pooled from the national level, the provinces and big cities. These initiatives are geared mostly towards ensuring economic cohesion.

In other cases, broader regional programmes and/or plans are implemented which cover a variety of policy fields (and potentially all cohesion dimensions), mobilising funding from different sectoral ministries (**France**, **Sweden**, see also Section 4.4.3(ii)). In the case of

Sweden, the four northernmost regions received some 44 percent of programme-based funding in 2007 compared to their 11 percent population coverage. In Italy, while support under the 'unitary regional policy' is available to all regions, it is intended to be concentrated on the *Mezzogiorno*, which has one-third of the population but more than four-fifths of the available funding. It is interesting to note that development programmes are increasingly aligned with EU Cohesion policy programmes in a range of countries, including funding arrangements. This is undertaken to simplify the implementation of the Structural Funds and to enhance the overall impact of regional policy. These programmes arguably contribute to cohesion in a wider sense of the term (Finland, France, Hungary, Italy, Netherlands (North), Poland, Sweden).

There are also cases, notably in some of the less prosperous Member States, where support for infrastructure and capacity-building is made available to local authorities across the country, aiming at greater social cohesion (Greece, Latvia, Poland, Slovenia). In the case of Poland, both domestic support and EU funding via regional OPs are allocated according to an equity-related formula which favours sub-regions with low GDP per head and high unemployment.

Expenditure allocated to broad development programmes partly depends on their scope. Figure 7 data suggests that targeted funding committed to the regional councils in Finland amounts to an average of 0.018 percent of GDP per annum. In Estonia, 0.058 percent of GDP was allocated under regional grants in 2009. Funding involved in multi-sector programmes is more important. In Sweden, programme-based support to regional projects was 0.062 of GDP in 2008. In France, where the State-region contracts have a very wide, cross-sectoral remit, central-level commitments amount to 0.095 percent of GDP in 2007-13 (complemented by 0.123 percent of GDP by regional and local authorities). Domestic operational programmes in Hungary mobilise an estimated 0.396 percent of GDP over the 2009-10 period. In Italy, programmes funded by the 'Fund for Underutilised Areas' (FAS) benefit from 0.596 percent of GDP in 2007-13. There are also examples of allocation systems favouring disadvantaged regions. This is the case of Sweden, where the northernmost regions receive a greater share in relation to their low population density. In Italy, 85 percent of FAS resources are reserved for the *Mezzogiorno*.

4.3.4 Fiscal equalisation

Fiscal equalisation mechanisms operate in all Member States at different territorial levels. They are based on vertical, and often also horizontal, transfers benefitting poorer areas across the country without, however, targeting specific territories. While not explicitly pursuing an economic cohesion objective, they significantly contribute to cohesion more widely, and particularly to its social dimension. In comparison to regional policy expenditure, related funding transfers are considerable, with around 2.3 percent of GDP across OECD countries. By channelling funding towards less developed areas, such mechanisms aim to ensure acceptable service provision across Member States and lead to a significant reduction of disparities in fiscal capacities (OECD, 2007). More generally, they help levelling out living standards and thus make a vital contribution to a country's overall cohesion.

4.4 The cohesion role of sectoral policies

As a consequence of the general move away from purely narrowly-defined regional policies and the increasing breadth of policy interventions, attention is shifting to the cohesion role of related *sectoral* policies. At the same time, coordination with regional policy strategies and instruments is becoming increasingly important. There are a number of sectoral policies which have a considerable impact on cohesion within a country, although cohesion-related objectives are rarely made explicit and impacts are often unintended.²⁸ The following sections first provide a brief description of the main sectoral policy fields highlighted in the Part II country reports. This is followed by an overview of the organisation of sectoral policies, and a discussion of horizontal coordination mechanisms between sectoral and regional policies.²⁹

4.4.1 Key sectoral policies with an impact on cohesion

One of the main policy fields with cohesion implications is *infrastructure development*, particularly concerning the accessibility for households and businesses, as well as the mobility of people living in peripheral areas. A number of activities fall under this heading, with different Member States focusing on different aspects. In Ireland, there continues to be a strong focus on investment in 'hard' infrastructure in order to improve overall competitiveness in the regions and support the business environment. Infrastructural deficits are tackled under the 2007-13 National Development Plan in order to provide each region with the 'critical infrastructure needed to develop the self-sustaining growth that will ensure balanced regional development' (McDowell, 2007). Similarly, in Cyprus, efforts are made to improve transport provision in rural and urban areas through incentives to public providers. Regionally-targeted support is provided in other cases, such as in the Netherlands, where - as compensation for the cancellation of the high-speed rail link to Groningen - the north will receive funding to upgrade its regional infrastructure. Other infrastructure-related projects concern the port of Rotterdam and Schiphol airport, as well as specific infrastructure improvements to enhance accessibility to prime urban centres and growth points. The Vlaanderen region in Belgium similarly puts a major focus on the logistics sector with the identification and development of multi-modal 'hot spots'. An ongoing issue for France is broadband provision which is seen as 'an important factor of social and territorial cohesion' (Premier Ministre, 2009), notably in isolated rural areas in the absence of private suppliers. A National Fund for Digital Territorial Development has been set up to support the provision of accessible and open infrastructures and networks.

Another cohesion-related field is *tourism policy* which, by its nature, is focused on specific types of area and has both economic and territorial cohesion dimensions. National examples can be found in Cyprus, where a number of initiatives aim to help diversify the rural economy, for example through the promotion of agrotourism. In Denmark, tourism policy

²⁸ It has been argued that public policies inevitably have spatial implications. However, they can be designed and implemented in a way that shows more or less 'awareness' of spatial repercussions, ranging from 'spatially aware' to 'spatially blind' policies; see Barca F (2009).

²⁹ Given the potential scale and variety of policies that could be implicated here, the scope of the discussion has been limited to some key examples.

has obvious implications for the designated peripheral areas despite the absence of explicit cohesion objectives.

The same applies to *rural policies*, in a broad sense, which can indirectly support disadvantaged areas due to their inherent focus on rural and peripheral regions. However, the level of economic prosperity or employment is often not considered in policy implementation (eg. as under the Joint Task for the Improvement of Agricultural Structures and Coastal Protection in Germany). In Poland, funding transfers operated under agriculture and rural development policies have strong implicit social cohesion effects.

Potential effects on cohesion can also be seen in the field of *R&D and innovation* policy. In Austria, the federal level has a steering role in RTDI policies, promoting sustainable economic competitiveness across the country through support for continuous innovation and technological development. Innovation policy in the Netherlands also includes region-specific aspects. In the case of Ireland, the government agency 'Enterprise Ireland' works with local industry and research organisations to stimulate high potential start-ups through a variety of knowledge sharing and networking initiatives. Other activities include providing access to finance for the promotion of business development and innovation, through venture and seed capital. Efforts are made in France to tackle regional imbalances in R&D expenditure, patenting and human resources support. Research and higher education clusters are promoted in order to enhance their 'territorial coherence' and international visibility.

Employment policies are mainly implemented with a social cohesion dimension. In Austria, related initiatives also include elements of territorial and economic cohesion, notably regarding old-industrial regions. Support to firms is provided in areas with particularly high unemployment rates or structural unemployment, with a focus on job creation, training, specific local labour market challenges and equal opportunities. In Poland, there is an indirect cohesion dimension to employment policies, in that longer-term unemployment benefits (including social security) are provided over a longer time period in counties with structural unemployment (ie. a rate above 150 percent of the national average). More generally, unemployment benefits and other social protection measures obviously contribute to social cohesion, and related budgets may be considerable, notably in some countries with low key regional policies (see Section 3.3.2).

Finally, it is important to note the importance of *spatial planning policies* in some Member States. These are often closely connected to regional development, but involve a different sectoral mix. Related instruments are of particular importance in countries where the lack of space is an issue, notably regarding the development of quality industrial estates and the renewal of brownfield sites (Belgium, Luxembourg, Netherlands). In highly-urbanised Member States, *urban development* policies are also relevant. In the Netherlands, there is a dedicated urban economy policy framework which views cities and urban networks as the driving force behind economic development. In the Vlaanderen region of Belgium, support is made available to 13 'centre' towns and cities. In France and Finland, efforts are being made to enhance the network of urban centres to balance out the predominance of the capital city.

Looking at the EU12, there are generally few sectoral policies which are not mainly driven by EU Cohesion policy. However, there are cases, where domestic co-financing dominates over EU funds. This applies notably to transport policy in the **Czech Republic**, which has the stated objective to ensure the balanced development of transport networks to enhance interregional cohesion. The same is true of **Slovakia**, where transport policies also involve substantial domestic resources, while EU Cohesion policy remains strategically important. Finally, there were plans for enhanced domestic infrastructure investment in **Latvia**, notably under the State Motorway Fund. However, financial support from the fund had to be suspended in 2009 and 2010 in response to low budget revenues due to the financial and economic crisis.

4.4.2 Organisation of sectoral policies

Sectoral policies are organised and implemented in different ways, depending on the institutional set-up and the division of competences across levels of government (see also Section 5.2). In Member States with a *strong central State*, line ministries mainly implement policies with the help of representatives at the sub-national level. This is, for example, the case of **France**, where State representatives are in place at the regional and sub-regional levels. They are directly responsible to their ministry, while the regional *préfets* are in charge of ensuring coherent State intervention across the territory. They oversee the implementation of the main delivery mechanism of sectoral policies in the regions, the State-region project contracts. Similar arrangements can be found in **Greece**, **Portugal**, **Sweden**, and in most of the EU12. In **Finland**, a reform of State authorities at the regional level took place in 2010 through the creation of an agency for regional administration and centres for business, traffic and the environment, which are organised on the basis of regional offices. Sectoral policies are implemented under regional development plans by a range of ministries, including the Ministry of Employment and the Economy, the Ministry of Transport and Communications, the Ministry of Agriculture and Forestry, the Ministry of Justice, the Ministry of Defence, the Ministry of the Interior, the Ministry of Social Affairs and Health, the Ministry of Finance, and the Ministry of Environment.

In countries with *stronger sub-national authorities*, such as **Austria** and **Germany**, many sectoral policies can be seen to incorporate certain cohesion objectives, either because they contribute to nationally-balanced economic development, or because they are designed, financed and implemented by *Land* or local authorities. This also applies to **Italy** where the regions actively implement economic development policies. Vertical coordination is an important element in Member States, where the regional level enjoys a relatively high level of autonomy. In **Germany**, dedicated bodies composed of ministries from federal and *Land* levels have been set up in relevant policy fields, such as spatial planning or science and research. In **Austria**, employment policy is implemented in a coordinated approach steered by the Ministry of Labour, Social Affairs and Consumer Protection and implemented together with the *Land* Departments for Economy. RTDI policies are also implemented in cooperation between federal and *Land* ministries and dedicated agencies. In **Spain**, the key inter-governmental mechanism is the so-called 'sectoral conference' which brings together national and regional ministers responsible for specific policies (eg. economy, transport, employment). National policy interventions are

implemented under State-Region Agreements in the regions. In the case of **Denmark**, where the regions have recently been given a stronger role in economic development, the regional dimension has been strengthened, notably by the creation of regional tourism boards.

4.4.3 Coordination of regional and sectoral policies

There has been an increasing focus on enhanced cross-sectoral coordination and cooperation between spatially-relevant policy fields (OECD, 2006). The coordination of regional and sectoral policies can take various forms and come in at different stages of the policy process. It may play a role during policy design with a focus on strategic coordination, or at the operational level, through specific coordination mechanisms.

(i) Strategic coordination

In some Member States, *coordination arrangements are historically rooted*, such as in the Nordic countries. Here, sectoral policies with territorial implications and impacts are required to integrate strategic regional development priorities already at the policy design stage. This may mean that ministries have to draw up regional development strategies, such as in **Finland**, where shorter and longer-term regional development priorities provide a framework for the operation of sectoral policies. Guidance and coordination regarding policy objectives is provided at the central level. So far, strategies have been produced by the Ministries for Employment and the Economy; Agriculture and Forestry; Finance; Social Affairs and Health; and the Environment. In other cases, there are more general coordination commitments, such as in **Sweden**. Here, a strong cross-sectoral orientation emerges from strategic regional policy documents, notably the National Strategy for Regional Competitiveness, Entrepreneurship and Employment. It focuses on four strategic priorities - innovation and renewal; skills supply and improved labour supply; accessibility; and strategic cross-border cooperation - each adapted to regional and local conditions. The concerned sectors are trade and industry policy, labour market policy, education policy, transport policy, innovation policy, rural development policy and cultural policy. In **Denmark**, coordination more broadly is achieved via the Business Development Act. This framework improves links between regional development initiatives and national policies (including sectoral policies, such as tourism) as it ranges across virtually all policy areas covered by the Danish Growth Council; this helps ensure that regional policy is integrated into the broader framework for economic development and globalisation.

Another aspect worth noting is the *role of spatial planning frameworks* for cross-sectoral coordination. In **Ireland**, for example, policies across the board take account of the objectives set out in the National Spatial Strategy and the National Development Plan. Under the 'Peaks' approach pursued in the **Netherlands**, regional policy is closely related to other sectoral policies through its alignment with the National Spatial Strategy (development of industrial estates, infrastructure, innovation, urban policy, tourism). Moreover, the National Spatial Policy Programme of **Portugal** includes guidelines and principles for the coordination of sectoral policies with a territorial impact. It is implemented via plans and committees at different levels. A further example is **Luxembourg**, where recent years have witnessed much high-level coordination between different Ministries in the drawing-up of spatial planning documents. This can be seen, for

example, in the National Spatial Planning Programme, which combines territorial and sectoral dimensions.

(ii) Coordination mechanisms at an operational level

In some Member States, policy coordination is put into practice with the help of *dedicated coordination bodies*. A prominent example is France, where the 'Inter-ministerial Delegation for Territorial Development and Regional Attractiveness' (DATAR) is in charge of cross-sectoral coordination. In line with the cross-cutting nature of regional policy (covering, among others, aspects of industrial, rural, urban, tourism, and health policies), most policy instruments (and notably the State-region contracts) are implemented in a cross-sectoral approach, involving a number of ministries and specialist agencies. In Finland, a regional development negotiation committee has recently been set up to coordinate the preparation and monitoring of ministries' regional budgets, to summarise budget proposals, and to organise negotiations between the central-level and the regional councils, as well as overseeing any other coordination tasks with respect to regional development. Moreover, efforts to enhance coordination are being made in Sweden via a new national forum for regional competitiveness, entrepreneurship and employment. This provides a platform for national and regional representatives to discuss regional development issues as well as joint initiatives to achieve national and regional objectives and priorities.

A further option, which is sometimes related to the above, is policy coordination through *integrated programming* and enhanced alignment of sectoral budgets. Such an approach is found mainly in the context of multi-annual development programmes (see Section 4.3.3), but can also apply to annual budget agreements, increasing the commitment towards regional development activities. The role of regional development programmes in Sweden is to provide a longer-term view of regional objectives, facilitate coordination across sectors and between local, regional and national initiatives, and establish a basis for other programmes and measures at the regional level. Also in Ireland, multi-annual, multi-sectoral programming lies at the heart of policy-making, requiring a coordinated policy approach across government departments, levels of government and partner organisations. In the case of Finland, cross-sectoral as well as regional-level coordination has improved through regional strategic programming. This has encouraged key regional development actors (the regional council, State bodies in the regions and social partners) to jointly decide on policy priorities, implementation, and related funding. In France, multi-annual State-region contracts are drawn up between the State representatives in the regions and the regional councils. DATAR is mainly responsible for coordinating ministerial budget allocations and ensuring the smooth implementation of the contracts. In England, the use, up to now, of Single Pot budgets by Regional Development Agencies has facilitated coordination between contributing departments (HM Treasury, Department for Communities and Local Government, Department for Business Innovation and Skills, Department for Work and Pensions, Department for Transport and Department for Environment, Food and Rural Affairs). Also in Denmark, annual partnership agreements between the central government and the Regional Growth Fora help create a degree of commitment to regional development activities by departments other than the Ministry of Economic and Business Affairs.

(iii) Sectoral policy coordination via EU Cohesion policy

It is interesting to note that EU Cohesion policy seems to be a driver in cross-sectoral coordination in a number of cases. It can, in fact, be argued that the strategic framework in place for EU Cohesion policy can serve as a basis for the coordination of regional and sectoral interventions more widely (Barca, 2009). In **Portugal**, for instance, an important change for 2007-13 was the reduction in the number of national sectoral OPs with the objective to ensure that different ministries work towards the overarching objectives of the NSRF rather than following a narrow sectoral approach. Similarly, one of the main influences of EU Cohesion policy in **Spain** has been enhanced inter-governmental coordination. In **Greece**, a newly set up Inter-ministerial Committee of Development Programmes fulfils a coordinating and monitoring role.

In many EU12 countries, there is typically little or no coordination between regional and sectoral policies outside EU Cohesion policy. This is the case, for example, in **Slovenia**, though more recently there have been signs for emerging cross-sectoral cooperation in response to the crisis. Also in **Bulgaria**, the active coordination of regional and sectoral policies is often achieved in the context of EU Cohesion policy (eg. regarding the development of European transport corridors and labour market policy). A more explicit approach to policy coordination is taken in **Hungary** where the National Development Policy Concept promotes a territorial approach to sectoral policies through place-based concepts. Sectoral ministries are required by law to promote spatial development and regional policy objectives. The National Spatial Development Council helps ensure that cohesion objectives are taken into consideration in sectoral policies. Similarly, in **Estonia**, ministries are required to analyse the regional effects of their actions and to inform the Minister for Regional Affairs about decisions and actions in sectoral policies that have a significant regional impact.

4.5 Concluding points

Summing up, the cohesion dimension of regional and sectoral policy instruments is variable and not always easy to identify. Narrow policy instruments often focus on more than one cohesion dimension. With regard to regional aid, the potential influence on cohesion depends on the overall aid framework, including aid coverage and ceilings. While related instruments mainly focus on economic cohesion there are cases where territorial cohesion is also an issue, eg. regarding island regions. Targeted regional development programmes are very varied in their nature and scale, both in terms of the targeted area and the funding mobilised. The provision of *ad hoc* support to help with situations of economic restructuring pursues both economic and social cohesion objectives, but is generally rather low-key. The situation is similar for instruments targeted at language and ethnic minorities. In addition, solidarity transfers play a crucial role in Germany and Spain, where they have a significant impact on economic and social cohesion.

Broad policy initiatives that apply across the country can display a considerable cohesion dimension based on the targeting of funding allocations to specific regions. Whereas support for the business environment is often devised in a spatially-blind way, in a number of countries provisions are made in favour of disadvantaged areas. Targeted support to

cluster development provided in some Member States may indirectly contribute to cohesion by promoting regional strengths and capacity. The cohesion dimension of regional and local development programmes, which are often aligned with EU Structural Funds programmes, depends on the thematic orientation which can be more business-oriented or include a number of different sectors. They may also favour certain territories via targeted allocation mechanisms. The wider the scope of such programmes, the higher the funding levels involved and, in some countries, related co-financing arrangements (see also Section 5.4.2) are a substantial part of the vertical transfers operated between levels of government. In addition, fiscal equalisation mechanisms significantly contribute to cohesion more widely, and particularly to its social dimension.

For sectoral policies, the cohesion orientation is mostly implicit. It clearly depends on the thematic orientation which cohesion type is concerned, whether economic (eg. infrastructure, R&D and innovation, rural policies, tourism), territorial (eg. infrastructure, tourism, spatial planning), or social cohesion (eg. employment policies, rural policies). Sectoral policies are mostly organised and implemented in the same way as regional policies, ie. either steered by the central level or giving more prominence to sub-national authorities. In recent years, coordination arrangements between sectoral and regional policies have become increasingly important. They can be of a more strategic or more operational nature or a combination of the two. Finally, EU Cohesion policy has been driving cross-sectoral coordination, notably in the EU12 and other countries where EU Cohesion policy spending is significant. .

Reviewing the main messages emerging from the above discussion, the following categories can be identified together with relevant country examples:

- Cohesion-oriented policies are implemented through a *limited number of important, rather targeted instruments that are endowed with sizable levels of funding*; levels of regional aid spend as a percentage of GDP are important and, in some cases, specific solidarity transfers are in place (eg. **Germany, Italy, Spain**).
- Cohesion-oriented policies operate based on a *number of low-key measures, often complemented by broad development programmes* which are more or less aligned with EU Cohesion policy programming (eg. **France**); programming approaches are furthermore important in **Finland** and **Sweden**, alongside considerations of territorial cohesion; regional aid spend as a percentage of GDP is rather low.
- *Purely domestic policy initiatives are of minor importance* due to the predominance of EU Cohesion policy; they mainly consist in small-scale initiatives often targeted at local authorities or specific localities (**EU12, Greece, Portugal**); levels of regional aid spend as a percentage of GDP are high in many cases; there are examples of broad development programmes alongside efforts to distinguish them from EU Cohesion policy programming (**Hungary, Poland**).
- *The role of cohesion-oriented instruments is limited*, with low regional aid spend, and the main policy focus is on broad support to the business environment (e.g. **Austria, Denmark, Netherlands**).

5. THE IMPLEMENTATION OF NATIONAL POLICIES TO PROMOTE COHESION

5.1 Introduction

An important issue with respect to the impact of Member State policies on cohesion is to consider the implementation of policy. To what extent do policy delivery mechanisms help to support economic and social cohesion? It can be argued that a more decentralised or regionalised approach to regional policy implementation is conducive to overall cohesion, since policy is delivered closely in line with territorial needs. However, there are others who think that an enhanced role of sub-national authorities may lead to sub-optimal policy choices and increase competition between territorial entities rather than stimulating improved policy solutions (e.g. in the context of the debate about cooperative versus competitive federalism). Against this background, this section considers four key dimensions of policy implementation: the regional *delivery* of policy (Section 5.2); recent trends regarding the *rescaling* of policy implementation (Section 5.3); policy *co-ordination* (Section 5.4); and mechanisms to ensure *efficiency* (Section 5.5).

5.2 The regional delivery of policy

Regarding the regional delivery of policy, regional (aid) policy was initially a central government concern and was implemented 'top-down'. As regional aid provision developed, its administration became more decentralised, especially with respect to support for smaller firms and projects. In this period, too, there were broader decentralisation trends across the EU, shifting the delivery of policy closer to policy recipients to improve policy efficiency and/or accountability (Rhodes, 1997). The introduction of regional programming was part of this trend, using the regional level to develop appropriate regional strategies and to help coordinate the now more broadly based approaches to regional development.

Several arguments underpin increased sub-national participation in regional policy administration with a view to strengthening cohesion. First, regional and local administrations can draw on detailed information on their respective territories in order to design appropriate, innovative implementation approaches that can draw together a range of policy strands. Second, the dispersion of delivery responsibilities across levels is seen to be more flexible and efficient and can respond to challenges at various territorial scales. Third, this approach brings together a wider range of sub-national interests, including elected authorities, in the process of administration, potentially creating a stronger sense of regional accountability or 'ownership' of policies (Jones *et al*, 2006). In a range of countries, a final driver of a more regionalised policy approach has been EU Cohesion policy which has affected policy relationships between actors situated at different territorial levels. A classification of key approaches is provided in Figure 5.1, which distinguishes four principal approaches to regional policy delivery.

Figure 5.1: National approaches to regional policy delivery

COUNTRY	NATIONAL RESPONSIBILITY FOR REGIONAL POLICY	SUB-NATIONAL ACTORS
Federal systems. Wide-ranging sub-national powers: elected parliament; budgetary powers; legislative powers; right to levy taxes		
Austria	Federal Chancellery, ÖROK (Austrian Conference on Regional Planning)	9 self-governing states - <i>Länder</i> (NUTS 2)
Germany	Federal Ministry for Economics and Technology	16 self-governing states - <i>Länder</i> (NUTS 1)
Belgium		3 self-governing territorial Regions and 3 language-based Communities
Regionalised unitary systems. Advanced sub-national powers: elected parliament; some budgetary powers, limited right to levy taxes		
Italy	Ministry for Regional Affairs, Ministry of Economic Development	20 regions with elected regional councils (assemblies) and Presidents/Governors (head of the regional governments).
Spain	Ministry of Economy and Finance (Directorate General for Community Funds)	17 directly-elected regions
UK	Scottish Government, Welsh Assembly, Northern Ireland Assembly	3 directly-elected regions (Scotland, Wales, Northern Ireland)
Decentralised unitary systems. Limited sub-national powers: regional decentralisation; some elected parliaments but limited budgetary powers; major financial transfers from central government; limited right to levy taxes.		
Czech Rep	Ministry for Regional Development	14 directly-elected regions
Denmark	Regional policy Ministerial Committee, Danish Growth Council	5 directly-elected regional councils, 6 regional growth fora (partnership bodies)
Finland	Ministry of Employment and the Economy	20 regional councils, one directly-elected the rest elected by municipal councils.
France	Ministry for Rural Areas and Territorial Development, DATAR as key agency	26 regions
Hungary	Ministry for National Development Policy and Economy and National Spatial Development Council	9 statistical regions, each with a regional development agency
Netherlands	Ministry of Economic Affairs	12 provinces
Poland	Ministry of Regional Development	16 directly-elected regions
Slovakia	Ministry for Construction and Regional Development	8 directly-elected regions
Sweden	Ministry of Enterprise, Energy and Communications	21 provinces, 2 directly-elected regions
Centralised unitary systems. No sub-national powers: regionalisation without regional government: no elected parliament, right to levy taxes or budgetary powers; all powers and resources controlled by central government		
Bulgaria	Ministry of Regional Development and Public Works (MRDPW)	6 statistical planning regions
Cyprus	Planning Bureau, Ministry of Finance	Non-regionalised
Estonia	Ministry of Interior (within this, Minister of Regional Affairs)	Non-regionalised state, 15 counties
Greece	Ministry of Regional Development and Competitiveness	13 regions (state appointed)
Ireland	Department for Enterprise, Trade and Employment	Non-regionalised state, 2 regional planning authorities
Latvia	Ministry of Regional Development	Non-regionalised state, 26 districts
Lithuania	Ministry of the Interior	Non-regionalised state, 10 counties
Luxembourg	Ministry of Interior and Spatial Planning	Non-regionalised
Malta	Office of the Prime Minister	Non-regionalised state
Portugal	Ministry of Environment and Spatial Planning	18 districts, 2 autonomous regions
Romania	Ministry of Regional Development	42 counties
Slovenia	Government Office for Local Self-Government and Regional Policy	Non-regionalised
United Kingdom	Department for Business, Innovation and Skills (BIS) and Department for Communities and Local Government (CLG) (England only)	Devolved Administrations for Scotland, Wales and Northern Ireland. In England, 9 statistical regions each with an RDA (abolished following the May 2010 general election)

Source: Based on Ferry (2003), updated to the current position.

5.2.1 Federal countries with highly regionalised approaches

As a federal country, regional policy delivery in **Austria** is generally in the hands of the *Länder* (i.e. *Land* departments of economic development and *Land* business agencies). However, the sub-*Land* level also plays a role, with regional management offices (*Regionalmanagements*) acting as a bridge to the local level. The national contribution is limited to the (informal) coordination functions of the Federal Chancellery and ÖROK (Austrian Conference on Regional Planning). **Belgium** also adopts a highly-regionalised approach. Flanders and Wallonia (and Brussels) have the key delivery functions, with an extremely restricted national role (e.g. coordination of aid area designation outcomes). In Wallonia, policy delivery is in the hands of a government department (the Regional Economy Unit (DPE, *Direction de la politique économique*), while in Flanders, delivery is through the Enterprise Agency (VLAO, *Agentschap Ondernemen*). Finally, in **Germany**, the federal structure ensures that *Land* and local authorities have the main decision-making and implementation responsibilities, albeit (for narrow regional aid policies) operating within a joint Federal-*Land* coordination framework, the *Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'*. This was introduced originally in 1969 to control potential competitive out-bidding between the *Länder* for mobile investment.

5.2.2 Regionalised unitary states, with significant devolution of regional policy functions

In **Spain**, the highly devolved system means that the autonomous communities have significant decision-making and implementation responsibilities with respect to economic development. The high degree of regional autonomy explains why the Inter-Territorial Compensation Fund (ICF) is implemented on a devolved basis by regional governments. The regions also have important decision-making functions under the regional investment grant (RIG), although final project approval is formally granted at the national level. The **United Kingdom** approach is also highly devolved. For more than a decade, the UK government has been committed to the devolved delivery of regional policy, with the Devolved Administrations in Scotland, Wales and Northern Ireland having both design and implementation responsibilities, while policy delivery in England was with the Regional Development Agencies until their abolition in the aftermath of the May 2010 general election. Lastly, in **Italy**, the programme-based unitary regional policy has both regional and multi-regional elements, with policy implementation largely delegated to regional authorities (albeit subject to supervision and coordination by the national Ministry of Economic Development, Department for Development and Economic Cohesion (MISE-DPS)).

5.2.3 Decentralised unitary states, involving a high degree of regional-level implementation

In **France**, despite broader decentralisation trends, the division of responsibilities is still favourable to the central State, particularly in the context of the State-Region Planning Contracts (CPER, *contrats de plan Etat-région*), where the regional State services (*préfets*) play a central role in aligning national and regional priorities. In **Finland**, responsibility for regional policy delivery is formally shared between the State and the municipalities (acting through the regional councils). Policy goals are set at the national level and provide the

context for regional-level strategies and implementation (by both the regional councils - which have overall responsibility - and State bodies in the regions). In the **Netherlands**, there are broader pressures towards decentralised policy approaches (including the government slogan “centralised if necessary, decentralised if possible”). However, notwithstanding the regionalised approach to *Peaks in the Delta*, the national level still plays a significant role in policy implementation, having regionalised its own policy role. In **Sweden**, regions have increased their regional development role as county competencies have grown. There is significant regional responsibility for state regional development measures though overall responsibility for the regional growth policy coordination and supervision continues to lie with the Ministry of Enterprise, Energy and Communications. In **Poland**, the regional role in policy delivery is developing, with the introduction of domestic framework agreements between central government and self-governing authorities (regions). These contracts are based on the French CPER model and focus mainly on social cohesion, though they have recently been used in the context of Cohesion policy. In the **Czech Republic**, regions are also directly elected, but their role is less prominent than in the Polish case. Finally, in **Denmark**, policy is implemented at the regional level under the Business Development Act. The Act instituted a dual-key control system whereby the elected regional council and the partnership-based regional growth fora (RGF) can veto each other’s initiatives. This enhanced the status of the RGFs, as did the fact that they were subsequently given the central role in Structural Funds administration.

5.2.4 Unitary countries with limited or no regional-level implementation

Most of the remaining 16 Member States take a national-level approach to the delivery of domestic regional policy. For some countries, including **Cyprus**, **Malta** and **Luxembourg**, this reflects their small size. For others - **Greece**, **Portugal**, **Slovenia**, **Estonia**, **Latvia** and **Romania** - it is attributable to the traditionally centralised delivery of policy. There are, however, a few countries where there is an element of regional-level implementation. This is perhaps most extensive in **Hungary** where six regional development funds involve a significant degree of regional-level implementation. In **Lithuania**, regional policy is planned and implemented at the regional (county) level, with regional development councils contributing to the design of regional development plans and to project selection. In **Ireland**, there has traditionally been a strong national-level approach, with policy delivered either through national ministries or agencies; however, some agencies have a specific regional orientation (like *Údarás na Gaeltachta*), while others operate through regional offices (such as Enterprise Ireland). Finally, in **Bulgaria**, there has been a growing emphasis on decentralisation, with a revived interest in local governance in the context of economic development. Municipalities are now playing a role in policy implementation, albeit hampered by limited financial resources.

5.3 Rescaling regional policy implementation: current trends

It is important to note that across Europe, implementation arrangements for regional policy are in a state of flux. Existing modes of regional policy design and delivery are being complemented - or even supplanted - by new ways of organising regional development intervention. Reforms are responding to a range of factors: broad processes of institutional

change, new regional policy concepts, the influence of EU Cohesion policy and, latterly, the onset of the global economic crisis.

5.3.1 Regionalisation

Over the past two decades, there has been a general trend towards the regionalisation of administrative responsibilities in regional policy. However, there is wide variation in the direction and pace of regionalisation processes. *Political regionalisation* has been occurring in some countries in recent years, establishing or strengthening elected regional authorities in order to increase their power in public decision-making. In **Denmark**, five new regions were established in 2007 with statutory regional policy responsibilities under the 2005 Business Development Act. In **Sweden**, a reform programme establishing a new intermediate level of governance alongside the national level and the municipality level has been piloted in two regions over the past decade. Here, elected regional governments are responsible for implementing and coordinating state regional development measures at the regional level and their roles have been strengthened in recent years. In 2009, it was agreed that these elected governments were to be made permanent, and that similar responsibilities were to be given also to other regions (Regeringens skrivelse, 2010). In **Spain**, reform of the regions' statutes of autonomy, which foresees further devolution of powers to the regions, has progressed further during 2009. In **Belgium**, the Flanders region continues to push for the further regionalisation of competences, notably in the field of labour market policies.

Processes of *administrative regionalisation* are apparent in some countries. Short of institutional change, these reforms seek to regionalise authority, responsibility and financial resources for providing some public services and delivering some policies. In the **Netherlands**, for instance, a recent issue has been the overall allocation of administrative roles and responsibilities between the national and regional levels. The 2007 coalition agreement strongly favoured decentralisation to the provinces and municipalities (Government of the Netherlands, 2007). While a more decentralised approach was part of the 2007-11 government programme (Ministerie van Algemene Zaken, 2007). The practical impact on regional policy has not so far been major, though both urban economic policy and aspects of industrial estates policy were recently decentralised. In **France**, debate on the allocation of administrative tasks between national and sub-national authorities is ongoing.

Cohesion policy implementation is influencing administrative regionalisation in some cases. In **Portugal**, the governance architecture for Cohesion policy has prompted decentralisation by increasing the share of funding managed through regional programmes and establishing global grants for associations of municipalities. In some new Member States, arrangements for the administration of Cohesion policy have contributed to the establishment of new regional-level administrative structures. In **Latvia**, five planning regions were established as public bodies in 2006, took on planning responsibilities in 2007 (and became a focus for EU funds) and completed the reform process in July 2009, with the election of new regional councils. In **Hungary** seven NUTS 2 statistical planning regions have been in operation since 1998. Each region has its own Regional Development Council that prepares medium-term strategic development concepts in line with the objectives of the National Spatial

Development Concept. These operational programmes correspond with the action plans of the EU cohesion policy programmes but they are independent - also financially - from the Regional Operational Programmes under EU cohesion policy.

Fiscal regionalisation has been part of the policy debate in some Member States for several years, but proves to be more challenging to implement than other forms of regionalisation. In the **Netherlands**, the 2007 coalition agreement argued for expanding local taxation while limiting state taxes. However, this has not been implemented as yet. In **Italy**, Law no. 42 of 5 May 2009 on fiscal federalism has been approved by parliament (although a general development, this has consequences for future regional policy). However, the implementation of this law is still pending, due to the lack of implementation legislation. In **Belgium**, the Flemish government is pushing for increased fiscal and financial autonomy.

5.3.2 The local agenda

Currently, the regional policy turn towards 'place-based' economic development policy and the impact of the global economic crisis are driving debates on whether economic development policy is best administered at the regional level. The current focus on 'functional' spaces, based for instance on 'travel-to-work-areas', labour market areas, transport corridors, trans-border regions etc, indicates a shifting perspective beyond regional structures and regional administrative boundaries, focussing on different configurations such as multi and local area agreements or associations, metropolitan zones, 'city-regions', intra-regional strategies etc. The 'local agenda' is coming to prominence in some countries through processes of administrative reform but also as part of the response to the economic crisis.

Reform of sub-regional administration is on the agenda in a range of countries, with implications for regional policy delivery. In **France**, a process of improving public policy delivery led to the 2009 Balladur report on the reform of local authorities which aims to clarify competences between levels, limit cross-financing and enhance the status of large municipalities (*métropoles*). Territorial reorganisation, including moves towards greater inter-municipal co-ordination is taking place at least in part to reduce overhead costs. In **Finland**, local governance reform (under the PARAS project), has progressed. This has focused particularly on stronger municipal and services structure, new delivery mechanisms and organisation for these services, reform for municipal funding and State co-funding, and on the division of responsibilities between municipalities and the State. The project has been implemented largely through municipal mergers, which has resulted in a reduction of the number of municipalities by nearly one hundred. Responding to the crisis at the local level

The financial crisis has also increased the focus on the sub-regional level. In several cases, the overriding priority is to protect essential local public services by making local government expenditure as productive as possible. Arguments have also been put forward for replacing expensive, centrally-steered, demand side policies by micro-economic, supply side policies, decided locally. Within the **United Kingdom**, supporting entrepreneurship in England was one of the key responsibilities of the Regional Development Agencies abolished following the May 2010 general election. The new government has argued that business

support is best administered nationally, notably through the new Regional Growth Fund. However, it has included support for small business start-ups among potential tasks of the new Local Enterprise Partnerships.

5.3.3 *Towards re-centralisation*

The growing responsibilities of the regional and local levels in policy delivery do not mean that there has been a corresponding decrease in central government inputs. The role of the centre is being redefined rather than diminished. Central government remains a significant source of funding for regional development and, thus, inevitably has a strong interest in policy delivery and accountability. With a view to promoting policy efficiency, it is also keen to enhance national-level coordination. At the same time, the crisis has emphasised the role of central governments in policy administration. In some cases, recentralisation has been an inevitable consequence of the changing use of policy instruments. For example, increases in the use of compensatory grants targeting specific territories, at the expense of 'all regional' instruments can prompt recentralisation of administrative tasks. In the **United Kingdom**, the new government in England has abolished the 'Regional Development Agencies' budgets based on global grants and is replacing them with a centrally-administered Regional Growth Fund.

Recentralisation is also occurring in some countries through general processes of cost cutting in the public sector. This can involve the rationalisation of sub-national structures and increased centralisation either in the name of efficiency improvements or merely as an unavoidable shift to basic essentials in a context of constrained funding. For example, in **Ireland** the role and functions of the public administration have been assessed, with a view to cutting costs, efficiency-savings and improving effectiveness and coordination. One recommendation is to merge the regional offices of the economic development agency, the inward investment agency and the employment agency.

5.4 The coordination of policy

In recent years, increasing policy weight has been attached to vertical (national-regional) coordination of regional development activities, not least on grounds of policy efficiency. Coordination arrangements between levels of government are unavoidable in a regional development context characterised by complex interactions and incentives between supra-national, national and sub-national actors (Keating, 2003). Since regional policy uses national funding, it is incumbent on national regional policy departments to justify the value-for-money and appropriateness of their regional development spend, even where (as is increasingly the case) policy delivery is a regional responsibility. The expansion of the regional policy agenda to incorporate a broader range of sectors (see Section 4.4.3), issues and objectives has provided further impetus for addressing coordination arrangements. Moreover, in a number of countries, ongoing moves to improve the coordination of limited resources and maximise synergies have been reinforced by the economic crisis. As a result, considerable regional policy attention is now paid to national-regional coordination, aiming to align regional spending with national priorities (which in turn are related to broader EU goals, including cohesion goals).

Research on policy coordination has identified different typologies applicable to regional economic development policy. Coordination arrangements can vary in intensity from completely independent decision making and information exchange to formal commitment to strategic goals (Héritier, 2002). Coordination arrangements can also be categorised according to voluntary or compulsory organising principles and different combinations of conditionalities, target-setting and monitoring (Alexander, 1993). Before considering such coordination in more detail, the relatively obvious point must be made that, where policy is by and large implemented at the national level, there is no case for developing a formal system of national-regional coordination. This is the position for countries such as **Cyprus, Czech Republic, Estonia, Greece, Latvia, Malta, Portugal, Romania, and the Slovak Republic**. While **Bulgaria** has, through the planning process, an interactive mechanism for consultation, coordination and the balancing of national, regional and local interests, administrative capacity remains an issue. In **Lithuania**, the Ministry of the Interior is responsible for the coordination of regional policy implementation and also provides technical assistance to counties and regional development councils.

5.4.1 Programmes, targets and guidelines.

A first category of (formal) coordination involves the use of programmes, targets and guidelines. This involves sub-national authorities drawing up regional or local plans in line with national objectives, the setting of targets by national authorities to govern the use of central funding, or more general guidelines providing an indication of how central government expects funding to be used or measures implemented. For instance, in **Finland** the new cohesion and competitiveness programme (KOKO) has merged the former regional centre programme, the regional component of the rural programme, and the local and regional implementation of the island programme. A recent review has praised the programme for promoting commitment to joint objectives by changing the relationship between the State and the local and regional administration. The preparation of the new National Strategy for Regional Development in **Poland** is another example. Part of the strategy involves the development of several strategic programmes that link sectoral and horizontal issues to regional development. In **Luxembourg**, recent years have seen increased high-level coordination between different Ministries in the development of spatial planning documents. There is a conviction that an integrated approach to territorial development, which combines spatial and sectoral aspects, is necessary.

5.4.2 Contracts and co-financing agreements

In several Member States, there is a growing emphasis on the coordination of various funding streams through national-regional contracts or co-financing arrangements. These are used to ensure that national and regional level funding and priorities are coherent, including provisions to negotiate the integration of sectoral and regional development funding (see also Section 4.4.3(ii)). Increasingly, funding packages for regional projects involve multiple sources of finance with *co-funding arrangements* being used to coordinate national and regional interventions. This gives national authorities the opportunity to ensure that national priorities are appropriately reflected in the projects in receipt of support. In **Germany**, the GRW (regional policy) co-funds regional-level activities based on a framework plan and nationally-agreed eligibility and award criteria. This is also the

approach adopted in the **Netherlands**, where there has been discussion of the concept of 'shared responsibility' between the national, provincial and big city levels as part of a broader triple helix model, with the three levels of government committing regional development funding 'up-front' for the full programme period.

Co-financing is increasingly important in a context of reduced funding and a growing emphasis on the territorial impact of sectoral policies. At the national level, this approach is evident in efforts to identify and coordinate those funding streams in sectoral ministries and departments that have a territorial impact. For instance, the (recently revoked) Regional Economic Performance Public Service Agreement in the **United Kingdom** (England) pooled relevant funding from central departments for disbursement by RDAs (abolished following the May 2010 general election). At sub-national levels, there is increasing emphasis on public authorities, particularly local authorities, coordinating funding in order to improve capacity (e.g. in **Finland** and **Sweden**).

Where significant resources are being shared, *contractual mechanisms* provide a binding legal basis for coordination. An example of this is the operation of State-region contracts in **France**. Overall, the state agency DATAR is in charge of ensuring a coordinated approach to implementing the contracts. The Inter-Ministerial Study and Monitoring Group (GESPER) is a coordination platform for ministries where a regular overview of progress with contract implementation is provided. In **Poland** the new National Strategy for Regional Development envisages territorial contracts as a crucial coordination instrument. These will replace the current regional contracts (which in reality serve only as co-financing instruments for Cohesion policy interventions). They will be based on legal agreements between national government and regions.

In **Denmark**, vertical coordination between the national and regional levels has increased, through the establishment of partnership agreements between central government and each of the six regional growth fora. These documents contain a general political commitment to shared goals and also specific undertakings that the two sides will attempt to progress. The official purpose of the political commitments is to secure compatibility between the globalisation strategy of central government and regional strategies for economic development. However, an important implication of the vertical partnership agreements is that they create a degree of commitment to regional development activities by departments of central government other than the Ministry of Economic and Business Affairs. The partnership agreements are revised on an annual basis, and the current round of negotiations has widened the focus and increased national-regional coordination, notably between the Ministry of Employment, the Regional Employment Councils and tripartite labour market partnerships. In **Greece**, the regions and the ministries involved in the implementation of Cohesion policy programmes are now being asked to sign an Operational Programme Agreement with the Ministry of Economy, Competitiveness and Shipping. Financial resources will only be released after the signature of this agreement.

Contractual arrangements offer several benefits. They can strengthen linkages between regional and local policies to national priorities. By increasing policy-making responsibility, they may also contribute to the development of local capacities. Contracting also performs a legitimising function: giving governments the opportunity to submit their policies to the

agreement and compliance of other authorities can spread responsibility and accountability. More challenging aspects of contracting include high transaction costs in terms of negotiation and administration. There is also a danger that contracts are dominated by one side, often central government, with the consequence that national priority actions dominate and contracts do not differ significantly from one region to another.

5.4.3 Institutional coordination

Formal and informal institutional arrangements are often used to facilitate coordination. In terms of formal arrangements, central government authorities have an important steering and coordination function *vis-à-vis* the regions. Increasingly common are institutional mechanisms where one department of a national government department or agency coordinates the activities of different central units that are involved in policies with a territorial dimension. Three recent examples are Italy, France and Finland. In **Italy**, responsibility for the coordination and supervision of the unitary regional policy has fallen to the Department for Development and Economic Cohesion (MISE-DPS) in the Ministry for Economic Development. The status of the Department is likely to be strengthened as it will now report to a new leading body for regional policy, the Ministry of Regional Affairs (a Ministry without portfolio operating within the Presidency of the Council of Ministers). Similarly, in 2009 DATAR, the main body in charge of coordination of territorial development policies in **France**, changed its affiliation when responsibilities for regional development were moved from the Ministry of Ecology, Energy, Sustainable Development and Territorial Development to the newly created Ministry for Rural Areas and Territorial Development. It is anticipated that DATAR's move to a ministry dedicated to territorial development will strengthen its coordinating role among central government departments.

In **Finland**, a new committee for regional and structural policy is an amalgamation of the regional development negotiation committee and the Structural Funds negotiation committee. The new committee is intended to: support the Ministry of Employment and the Economy in its coordination and monitoring tasks; coordinate sectoral regional development strategies and their objectives; monitor the implementation of the national regional development objectives and the sectoral regional development strategies, and the related steering of the State's regional administration; and make suggestions for the coordination and development of national regional development and Structural Funds activities (Government of Finland, 2009). In some cases, central governments have established new institutional arrangements to boost their coordination role at sub-national level. In the **Netherlands**, the Spatial Economic Development Directorate of the Ministry of Economic Affairs has had 'regional teams' of officials for several years. The Ministry provides the secretariat for the regional Peaks programmes and government staff work in 'their' respective regions each week. At the same time, the regional Programme Commissions bring together regional views whilst recognising national priorities (through the presence of a senior Ministry official on each Commission).

The role of central-level coordination bodies is prominent in several EU12 countries due in large part to the rapid expansion of the regional policy system under Cohesion policy. In many cases, coordination arrangements are still evolving against a background where

sectoral ministries have proved resistant to the idea of their activities being 'coordinated' by an external committee or managing authority, since they are used to having their own distinct sphere of activity. However, there is an increasing focus on coordination at the national level. In **Slovakia**, new inter-ministerial coordination committees have been created. A Government council for regional policy and supervision of structural operations is now responsible for efforts to coordinate activities between ministries. In **Poland**, as well as the coordination role played by the Ministry of Regional Development, the current reform process foresees a stronger role for the Development Policy Coordination Committee (*Komitet Koordynacyjny do Spraw Polityki Rozwoju*). This has high-level representation from the main ministries and is organised under the auspices of the Chancellery of the Prime Minister. The Committee will act as the strategic forum for governmental debates on development policy, including regional policy.

Less formal approaches to national-regional coordination include the establishment of networks, conferences or other fora that bring representatives of different administrative tiers together on a regular basis. A good example of an informal (but still effective) approach to national-regional coordination is that adopted in **Austria**. The two key actors at the federal level - a division of the Federal Chancellery charged with the coordination of regional policies and spatial development (Division IV/4) and the Austrian Conference on Spatial Planning (ÖROK) - have important coordination roles which, interestingly, are not based on their specific competences but rather on the willingness of institutional actors at different levels to cooperate. In this context, the development of the 2007-13 NSRF (STRAT.AT) has been useful in helping to strengthen coordination opportunities, not least through the ongoing STRAT.AT process. In **Sweden**, a national forum for regional competitiveness, entrepreneurship and employment was set up in 2007 to engage the regional political representatives in a long-term and strategic dialogue. The discussions were organised into four themes (covering the four priorities of the Swedish NSRF: innovation and renewal; skills development and labour force supply; accessibility; and, strategic cross-border cooperation). According to a recent review (Näringsdepartementet, 2009a), there has been exchange of experience and learning between the regional politicians and between the regions and the Government, but there are also recommendations for smaller working groups and a focus on competence and labour market development, the EU Baltic Sea Strategy, culture and creativity, and regional innovation environments (Näringsdepartementet, 2009b). In **Italy**, a vertical coordination forum, the State-Region Conference, continues to promote dialogue between regions and central State on issues affecting the regions. A more thematic approach to coordination is exemplified by the management of Cohesion policy in **Spain**. At the end of 2009 three thematic networks were launched to discuss management and implementation issues and provide a forum for exchanging experiences, covering the environment, equal opportunities and urban issues/housing. The creation of a similar R&D and innovation network was scheduled for September 2010.

5.5 Ensuring efficient policy delivery³⁰

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

5.5.1 Designing efficient policy delivery systems

The first heading concerns *ex-ante* efforts to improve efficiency when designing or reforming policy delivery systems. One of the European Commission's responses to the crisis was to allow Member States to introduce reforms to accelerate or streamline the delivery of Cohesion policy. For instance, in 2009 **Spain** standardised project application forms and procedures were introduced across all Spanish regions to increase efficiency. In **Portugal**, measures to support the business environment were reformed in July 2010 through the announcement of a 'Strategy for Accelerating the Implementation of Business Projects'. One management measure allows the adaptation of projects to take account of the economic context by simplifying procedures, particularly in terms of reporting during implementation and project closure.

Similar initiatives have been introduced in national regional development policies. Two examples come from the regions of **Belgium**. In Flanders, an efficient and effective administration is one of the main priorities of the 'Pact 2020' initiative. Progress is overseen by a think-tank, the Commission for Efficient and Effective Government (CEEEO, *Commissie Efficiënte en Effectieve Overheid*) set up in May 2008. A multi-annual programme for a 'vigorous administration' was submitted by the Flemish administration to the government in May 2010. Important elements of the approach are learning from past experience, involving civil servants and politicians, creating synergies between levels of government, and governance issues (Vlaamse Overheid, 2009). In Wallonia, administrative simplification is also on the agenda, through the new 'Plan for Administrative Simplification and e-Government' published in February 2010 (Gouvernement Wallon et Communauté Française, 2010). The report lays down six priorities: simplifying and improving regulation; simplifying and harmonising procedures; expanding virtual procedures; managing administrative documents electronically; streamlining and computerising data collection and data-sharing; and, improving communication with target audiences.

In several countries, conditionalities are being built into policy delivery systems to support efficient performance. This can involve setting *ex-ante* conditionalities that must be met before funding is released. For example, in **Italy**, several measures to increase the efficiency of policy delivery are contained in the ERDF funded Governance and Technical Assistance NOP Convergence (ERDF funded). This includes a condition for funding that the administrative units involved must complete an organisational plan validated by the Department for the Public Function. Incentives or sanctions can be built into policy delivery

³⁰ This section draws on recent discussions in the framework of the EoRPA regional policy research consortium (<http://www.eprc.strath.ac.uk/eorpa/default.cfm>).

frameworks to improve efficiency. A performance reserve, totalling around €3 billion, is also operated (Gruppo tecnico, 2010). Under Cohesion policy, **Poland** has a reserve fund for its regional operational programmes (ROPs). It is divided in annual tranches among the five ROPs with the highest level of ERDF spending (as a percentage of the total allocated to the programme). Poland's new national regional policy framework is adopting this instrument, but there are concerns that this may lead to a focus on quick rather than strategic spending and a focus on competition rather than cooperation among regions.

Several options to improve efficient administration are being considered in **France**. The government's General Revision of Public Policies (RGPP), was launched in 2007 to increase the efficiency of public administration and reduce public expenditure. As a first step, simplifications were introduced regarding deconcentrated State services, which saw mergers at the level of the regions and *départements*, as well as in the field of service provision. The second phase, announced in June 2010, includes continuing staff cuts in the public sector, a reduction of operating costs, simplification of administrative procedures (notably via ICT). The introduction of incentives, rewarding good management with increased transfers, is currently discussed, but there are concerns about the practicality of such incentives as well as the definition of 'good management'. The introduction of benchmarking procedures to compare costs and expenditures between different local authorities is also being considered.

5.5.2 Supporting efficiency through monitoring and evaluation

The second heading concerns the role of ongoing monitoring and evaluation in improving the efficiency of regional instruments as they are rolled out. Monitoring and evaluation may take on increased importance in the context of the crisis. In **Spain** the 2009 Cohesion policy Strategic Report makes the point:

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

In this context, it is worth noting that, in several countries, the capacity for sub-national monitoring and evaluation has increased considerably in recent years. This reflects the importance of capturing the territorial impact of socio-economic processes, and the performance of policy responses. In **France** and the **United Kingdom** (England), recent years have seen the establishment of regional statistical observatories in order to gather comprehensive, standardised data at different levels. Regional policy in **Denmark** involves national targets for training, entrepreneurship, innovation, and R&D. For each of these areas, the performance of every region is measured, and the Danish Enterprise & Construction Authority (DECA) is working with Statistics Denmark to devise additional indicators with regard to framework measures and the performance of firms/individuals. The standardised collection of data on regional economic performance orchestrated by DECA should allow the regional growth fora to base their policies on up-to-date analyses of regional development trends, while facilitating evaluation within and across regions with regard to both policy programmes and individual projects. Moreover, in **Portugal**, the

standardisation of core indicator concepts, methodologies and data collection approaches across programmes have been strengthened over the past year. However, in some of these cases, there have been challenges in aligning these indicators with targets. As a result, the consequences of persistent underperformance can be unclear.

Ongoing evaluation can also be used to improve the performance of policy instruments and programmes as they are rolled out. Across the *EU12* Member States, expanding evaluation systems are focusing on delivery issues (e.g. selection criteria, indicators etc) for the current generation of Cohesion policy programmes. However, spill over effects into domestic policymaking are increasingly apparent. For instance, in the **Czech Republic** there are already examples when the EU evaluation methodologies have been applied outside the programmes co-financed by the EU policy (e.g. a form of ex-ante evaluations of regional innovation strategies for several Czech regions). In **Latvia**, a transfer of knowledge and skills has facilitated the development of local expertise in monitoring and evaluation capacities.

There is an increasing focus on 'impact' rather than 'process' evaluation as a means of assessing the effectiveness of interventions. Regional development support instruments in **Austria** have recently been evaluated from this perspective. In **Germany**, an evaluation of the impact of GRW business aid has found that it is effective in stimulating private investment. It took a counter-factual approach, comparing businesses that received aid with similar businesses that did not receive aid (via a 'matching study') and found that the development of assisted businesses was considerably stronger in terms of employment and earnings. In the **Netherlands**, evaluation is regarded as key to policy efficiency. The impact of each component of policy is evaluated at the end of each policy phase. In this context, it is of note that industrial estates provision and the Investment Premium (BSRI) were evaluated in 2009 while Peaks in the Delta and the regional development companies (ROMs) were reviewed in 2010. Numerous studies are underway at national and regional levels in **Poland**. An *ex-post* evaluation of the Polish National Development Plan (2004-2006), is due to be finalised in 2010. This amounts to a substantial work programme and one of the most comprehensive carried out at Member State level. It has already produced some interesting studies and conclusions (eg. on the macroeconomic influence of Cohesion policy at national and regional level). Another evaluation has found a significant positive impact of Cohesion policy spending in Poland on the economies of EU15 Member States.

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

Further, in some cases the impact of the crisis and the implementation of anti-crisis measures have skewed data to such an extent that it is difficult to draw robust conclusions and make long-term recommendations on the basis of evaluation. Lastly, the extent to which public authorities can respond to evaluation recommendations is constrained by the

new financial context. In **Ireland**, responses to evaluation recommendations have been constrained by the crisis: the public sector has already been subject to major changes and cuts, creating resistance to further upheaval. Moreover, short-term costs are involved in restructuring and institutional change that could be difficult to sustain in the present economic climate. In **France**, an evaluation of the Regional Economic Development Schemes (SRDE) is currently underway, but it is likely that all recommendations will be implemented due to limited capacities of local authorities (Zapalski, 2010).

5.6 Concluding points

Policy delivery varies considerably across EU Member States in line with the distribution of competences and resources at different levels. Countries' approaches can be placed on a continuum from the quasi-absence of the central state in regional policy-making (eg. **Belgium**), to an oversight role of a central ministry over the actions of relatively independent regions (eg. **Italy, Spain, United Kingdom**), to important coordination and budgetary powers retained by the central level (eg. **France, Poland**), to a predominance of the central state over sub-national entities which exist mostly for planning purposes (eg. most of the EU12, **Greece, Portugal**). However, the mapping of countries is not always clear-cut, and there are elements in some of the more regionalised or federal Member States which reflect quite strong historical commitments by the central state to regional development issues (eg. **Germany**). Moreover, positions of the Member States on this continuum are not stable with on-going decentralisation and regionalisation processes in a number of countries. Vertical coordination is essential in the different institutional arrangement, although it is less of an issue in centralised unitary systems. There are increasing efforts to ensure the coherence of national and regional-level funding and priorities, sometimes also including sectoral funding commitments, through national-regional contracts or co-financing arrangements. Progress has also been made with respect to institutional coordination arrangements, including in some of the EU12.

6. THE IMPORTANCE OF EU COHESION POLICY³¹

6.1 Introduction

There is a complex relationship between EU Cohesion policy and Member State policies for economic, social and territorial cohesion. This does not mean that the character and intensity of that relationship is similar in all Member States. Differences can be seen in almost every dimension of the relationship which was subject to research. However, some general features can be noted, and these will be presented in the course of this chapter.

In order to understand better the situation in Member States, the following dimensions of potential importance to EU Cohesion Policy were taken into account:

- the influence of the Cohesion policy on strategic objectives and priorities;
- the role of the Cohesion policy in implementing and financing these policy objectives; and
- the impact of Cohesion Policy on governance (including management, implementation and evaluation).

Before beginning the discussion of the relationship between the two first policy dimensions (the sphere of governance seems to constitute a separate aspect, not so strongly related to the first two), a reflection on the meaning of the Cohesion policy itself, as understood by the national experts, is necessary since particular countries define it in very different ways.

In general, the interpretations of the Cohesion policy relate to the widely conceived framework of the Lisbon agenda, and recently to the strategy Europe 2020, and the objectives of the policies specified in these documents. Thus, the notion of Cohesion policy seems to be as wide as this framework. Therefore, there are countries which state that “competitiveness”, “growth” and “innovation” on national or on regional scale (or on both) are the objectives of Cohesion policy. These, usually, are the countries which are embraced by the “competitiveness” objective. At the other extreme, there are countries falling under the “convergence” objective which - at least in their official strategic documents interpret “cohesion” as equalisation of interregional differences in GDP per inhabitant. Obviously, there are also countries which try to combine (in different ways and proportions) these two dimensions of Cohesion policy and which partially support growth and jobs (i.e. which follow the orientation of the Lisbon agenda) and, at the same time, try to alleviate regional disparities. These are, in general, the countries that have considerable historically rooted interregional differentiation or in which the territorial dimension of development plays an important role due to their geopolitical situation (like the Nordic countries).

³¹ This section has been written by Grzegorz Gorzelak and Marek W. Kozak of Euroreg, University of Warsaw.

6.2 Competitiveness - convergence dimension

As already indicated, the Cohesion policy has a wide and often unclear - as is still the case with "territorial cohesion" - meaning which covers a wide array of objectives, from "competitiveness" to "convergence". Though these two notions themselves are also rather vague, their interpretation is not too difficult. Increasing territorial (national or regional) competitiveness means improving the business environment for the firms located in a given area through delivering to them qualitative factors like skilled labour, business support institutions, transport and ICT infrastructure, proximity of R&D facilities, improving the living conditions for the most demanding (i.e. creative, best educated and occupying top positions) employees and employers. On the other hand, "convergence" means attempting to improve the standard of living of inhabitants of the lagging regions, which is assumed to be achieved through accelerated growth in these regions and improving their infrastructure provision with facilities necessary for both businesses and households.

The discussion of these two orientations is the essence of the debate on regional development and policies for regional development. The "efficiency-equity dilemma" is often denounced as irrelevant in terms of the contemporary development paradigm. However, closer examination of the policies adopted in particular Member States clearly indicates that the choice between these two orientations is not a trivial one and that attempts aiming to avoid this choice are more nominal than real.

Taking into account the policy strategic documents, three groups of countries can be distinguished according to their location on the competitiveness-convergence axis.

First, Luxemburg, Denmark, the Netherlands and Austria clearly indicate national and regional competitiveness as the main orientation of their Cohesion policy. The existence of such a goal within EU Cohesion policy allows their national development policies to be related to EU goals and objectives. National preferences for competitiveness are, in this context, the most important ones; the pro-competitive elements of the Lisbon agenda (and in the future Europe 2020 strategy) enable these countries to benefit from the (limited) funds available under the competitiveness objective of EU Cohesion policy.

Second, a wider group of countries try to combine the competitiveness and convergence orientations. These are the United Kingdom, France, Sweden, Finland, Ireland, Cyprus and Malta, as well as Flanders and Brussels in Belgium (where the provinces have the right to formulate their own development goals). As competitiveness goals seem to be of utmost importance, the traditional goals of regional policies do find their place in the set of adopted objectives and are combined in a policy mix which has a "compromise" character". In some countries, convergence objectives may be a result of their geopolitical setting (as in Sweden and Finland) where it had been assumed that some territories (northern) should not remain depopulated, and the policies tend to attract people and business to relatively unattractive locations. In other countries (France and the UK), the tradition of assisting less developed peripheral regions co-exists with policies aiming at enhancing innovativeness and productivity in the regions.

Third, there is a group of countries that clearly places most weight on the convergence orientation of Cohesion policy. This includes all of the southern European countries (Spain, Italy, Greece and Portugal) and those in Central-Eastern Europe (Bulgaria, Czech Republic, Estonia Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia). Germany, with the regional problem of the eastern *Länder*, is also a member of this group. The depth and persistence of regional disparities and traditional approaches to regional policies are the most important factors shaping Cohesion policy for this group, though - as will be seen later in this report - not the only ones.

6.3 Influence on strategic objectives and priorities

The relative importance of EU Cohesion policy turned out to depend on at least two criteria. One is the level of development of the Member State and the amount of funds that can be spent on pro-development projects. The second relates to the EU (framework) regulation for the financial perspective 2007-2013 and the relation of the national to EU funds available for strategic investment. In practice these two elements are quite strongly connected, as the regulation, in the paragraphs important for this study, differentiates between territories (regions) below and above the threshold of 75 percent of average EU GDP per capita. However, it seems that the level of development is a primary factor. To a large extent, the impact may differ also due to the changing role of Cohesion policy in various policy areas. Despite the complexity of factors and relations, Member States can be grouped along a continuum ranging from “insignificant” to “very strong” importance (influence) of EU funds and strategic orientation on national policies.

Among the countries that tend to concentrate at the “very strong” end of spectrum is a group of mostly New Member States. It is important to stress that this group is not fully homogeneous. An example of the most significant influence of Cohesion policy is reported in Bulgaria and Romania, where policy objectives are deeply based/derived from the Cohesion policy. Similarly, in Hungary and Poland, there is a widespread belief that Cohesion policy has recently had a significant influence on national policies and, in particular, regional development policy is dominated by EU Cohesion policy co-financed programmes. In Slovakia, Cohesion policy influenced a number of policies, with regional policy developed from scratch under EU influence during accession. Slovenia, Lithuania, Latvia and Estonia underline influence of the EU Cohesion policy on strategic objectives. Poland expresses similar views, in particular emphasising the importance of Cohesion policy for the Lisbonisation process. Also Malta considers the influence of Cohesion policy on strategic objectives to have been strong.

The position of the Czech Republic is interesting. It suggests that the importance of Cohesion policy is relatively small in comparison with the Lisbon strategy. What is more, the Cohesion policy-related Czech strategic documents are played-down and, therefore, their role is marginalized due to some skepticism about value-added of these documents. It is stressed that the increase of innovativeness should become the main priority of Czech policies. The Czech case can be seen as sharing some features with the next group of countries.

The situation of countries which suggest that Cohesion policy has been of modest importance to their strategic objectives and priorities is very interesting. Here, in the case of Germany, influence is admitted, but stress is placed on its own lengthy experience in policy development and differences in, for instance, its approach to area designation. When assessing the German position, one has to bear in mind the dual character of its development policy and objectives (significantly different in the new *Länder* than in the western regions). In the Netherlands, the national experts stress the importance of Cohesion policy on strategic objectives rather than on implementation or financing, as the main public instruments aimed at delivering the objectives are national programmes. In Sweden, the importance of the policy in question is considered “rather strong” simultaneously emphasising that EU Cohesion policy is integrated into the national regional development policy rather than steering it. Luxembourg, the EU’s richest Member State, seems to take similar position.

The other end of the proposed continuum is taken by countries that see EU Cohesion policy as being of limited importance. This is not only due to limited access to EU financing. In most cases, main reason for this view is the deep belief that those countries defined and introduced the objectives and instruments which are known today as typical for Lisbon driven Cohesion policy long before this policy was developed. In Austria, with development policy objectives oriented towards entrepreneurship, innovation and R&D, EU funds are seen pragmatically as nothing else than a financing instrument. A very similar approach is found in Denmark where Lisbonisation is seen as an idea in line with existing strategies. Finland, a relatively new Member State (since 1995), puts stress on the fact that its development policy was “Lisbonised” already before accession. Similarly, Ireland stresses that sound macroeconomic policies were adopted at the end of the 1990s when emphasis was put on the new development paradigm. At present, Ireland’s response to EU Cohesion policy is seen domestically as “pragmatic adaptation”. In the period 2007-2013 it means de facto separating out Cohesion policy from the mainstream national development policies (one should remember that in the past the use of the EU funds in Ireland was exceptionally strongly development-oriented, even at the expense of interregional convergence in this country). The position of Cyprus has to be noted: it also stresses that development policies had been developed before accession and Cohesion policy does not play significant role in policy design (though it admits that in certain areas the influence is visible).

The role of the Lisbon strategy in formulation of national policies may be summarized in two distinctive situations: the richer and more technologically advanced countries, with stronger innovation capacities, the more willingly they do really implement the “core” of the Lisbon strategy, i.e. support R&D and enhance innovativeness, and in this way the Cohesion policy fits into their own policies. The other pole is composed of relatively less developed countries (the New Member states in particular) which use “Lisbonisation” as a key word in order to fulfill the format requirements, and try to prove (mostly on paper) that their policies do follow the Lisbon strategy and its principles. Of course, this is a two-polar simplification, and real situations of particular countries can be placed somewhere in between of these two “ideal” descriptions.

6.4 Influence on financing

A recently published evaluation report on 2000-2006 Cohesion policy clearly shows that, even in allegedly homogeneous groups of Member States (such as the EU10 or the EU15) the strategic use of, for instance ERDF, in various policy areas differed from one country to another (Ismeri *et al*, 2010). Table 6.1 shows the scale of payments under ERDF to the main recipient countries.

Table 6.1: The scale of payments from the Structural Funds and Cohesion Fund to the main recipient countries, 2000-2009.

€bn	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-9
PT	1.34	1.66	2.80	3.11	3.20	2.68	2.37	2.12	2.93	0.29	22.50
GR	0.00	2.24	1.45	1.41	2.55	2.43	3.43	4.68	5.45	0.16	23.80
MZ*	1.30	0.24	1.20	2.68	2.63	2.94	3.37	3.31	3.24	0.48	21.40
GE*	0.68	2.24	2.50	2.43	2.92	3.03	2.85	2.61	2.10	0.02	21.39
ES	0.30	5.33	7.93	8.22	8.10	7.63	5.51	5.46	5.44	0.40	54.30
IE	0.21	0.46	0.61	0.55	0.54	0.43	0.41	0.24	0.30	0.01	3.76
Total	3.38	12.17	16.49	18.39	19.93	19.14	17.95	18.42	19.47	1.36	147.16
LV		0.01	0.02	0.02	0.09	0.17	0.17	0.39	0.26	0.01	1.14
LT		0.01	0.03	0.03	0.11	0.19	0.23	0.39	0.48	0.03	1.49
EE		0.01	0.01	0.02	0.06	0.10	0.16	0.16	0.15	0.00	0.66
PL		0.05	0.16	0.17	1.06	1.00	2.13	3.37	3.15	0.29	11.37
SK		0.00	0.02	0.03	0.15	0.20	0.30	0.43	0.51	0.00	1.65
HU		0.03	0.04	0.05	0.24	0.40	0.75	0.85	0.42	0.04	2.82
CZ		0.01	0.03	0.05	0.23	0.20	0.51	0.61	0.69	0.03	2.37
MT					0.01	0.01	0.02	0.03	0.02	0.00	0.08
SI		0.00	0.01	0.01	0.03	0.06	0.10	0.08	0.11	0.01	0.40
CY					0.01	0.01	0.01	0.02	0.03	0.00	0.08
EU10		0.12	0.32	0.38	1.99	2.33	4.37	6.33	5.82	0.41	22.06
% GDP	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-9
PT	1.10	1.28	2.07	2.24	2.22	1.80	1.53	1.30	1.76	0.18	1.53
GR	0.00	1.53	0.92	0.82	1.37	1.24	1.63	2.07	2.28	0.07	1.25
MZ*	0.90	0.16	0.74	1.58	1.49	1.60	1.77	1.66	1.56	0.21	1.18
GE*	0.22	0.73	0.79	0.77	0.90	0.93	0.85	0.75	0.58	0.01	0.65
ES	0.05	0.78	1.09	1.05	0.96	0.84	0.56	0.52	0.50	0.04	0.62
IE	0.20	0.39	0.47	0.40	0.36	0.27	0.23	0.13	0.16	0.01	0.25
Total	0.26	0.79	1.01	1.07	1.09	0.99	0.87	0.85	0.87	0.06	0.78
LV		0.11	0.18	0.23	0.79	1.28	1.09	1.83	1.14	0.06	0.81
LT		0.09	0.20	0.17	0.60	0.89	0.94	1.36	1.50	0.10	0.72
EE		0.11	0.13	0.18	0.63	0.90	1.20	1.04	0.91	0.00	0.61
PL		0.02	0.07	0.09	0.52	0.41	0.78	1.08	0.87	0.09	0.45
SK		0.02	0.09	0.11	0.45	0.52	0.67	0.78	0.78	0.00	0.41
HU		0.05	0.06	0.06	0.29	0.45	0.83	0.84	0.40	0.05	0.35
CZ		0.01	0.03	0.07	0.26	0.20	0.45	0.48	0.47	0.02	0.24
MT					0.14	0.11	0.32	0.60	0.36	0.00	0.17
SI		0.01	0.04	0.03	0.12	0.21	0.31	0.23	0.29	0.02	0.14
CY					0.04	0.07	0.10	0.14	0.17	0.01	0.06
EU10		0.03	0.07	0.08	0.40	0.41	0.70	0.88	0.72	0.06	0.39

Note: Countries ordered by overall payments 2000-09 relative to GDP; *MZ, GE refer to the Mezzogiorno and the Eastern German *Länder*, respectively.

Source: Bradley and Untiedt. An analysis of cohesion policy, 2000-2006, using the CSHM.

With the passage of time, the relative importance of Cohesion policy tends to increase during the period 2000-2006. This process is particularly visible in new Member States. Except for Latvia and Estonia, none of the new Member States reached a level of Cohesion policy funding above 1 percent of GDP. Although the data in Table 6.1 and Table 6.2 give an overall picture of aggregated relative importance of Cohesion policy to Member States (main beneficiaries only), an assessment of relative importance to domestic economic policies aimed at economic, social and territorial cohesion requires an analysis of both quantitative and qualitative information. In many cases, due to lack of precise data, the information presented is, to a large extent, based on estimations by experts.

Table 6.2: Cumulative effect of Structural Funds on GDP in major recipient economies, 2000-2015

GDP in end year as a % of GDP in absence of cohesion policy								
	HERMIN				QUEST			
	2000-9	2000-11	2000-13	2000-15	2000-09	2000-11	2000-13	2000-15
IE	7.47	8.29	9.01	9.67	1.95	2.97	4.04	5.17
GR	15.89	17.07	17.96	18.74	12.99	17.83	23.10	28.60
ES	16.67	17.77	18.53	19.18	9.50	12.74	16.26	19.98
PT	16.75	18.23	19.54	20.75	15.69	21.33	27.41	33.70
MZ	10.37	10.71	11.41	12.13				
GE	5.16	5.51	5.86	6.20				
EU14	15.63	16.75	17.58	18.31	9.80	13.30	17.09	21.07
CZ	3.74	4.54	5.20	5.79	1.40	2.20	3.03	3.87
EE	6.63	7.95	9.07	10.07	3.52	5.10	6.73	8.32
CY	0.68	0.77	0.83	0.88	0.13	0.30	0.49	0.69
LV	6.71	7.86	8.79	9.58	11.65	16.98	22.42	27.85
LT	7.58	8.89	9.95	10.88	7.67	11.12	14.83	18.70
HU	6.91	7.70	8.28	8.78	3.08	4.62	6.28	8.02
MT	2.52	3.00	3.44	3.84	0.68	1.31	1.97	2.65
PL	4.46	5.48	6.37	7.17	4.98	8.06	11.31	14.67
SI	1.17	1.35	1.50	1.64	0.84	1.32	1.80	2.27
SK	4.29	5.11	5.83	6.49	2.32	3.49	4.72	5.99
EU10	4.57	5.45	6.19	6.85	3.71	5.79	7.97	10.22

Note: Aggregations are weighted averages of country estimates, using the GDP of countries expressed in EUR as weights. GDP in 2009 has been used to weight the estimates for the subsequent years.

Source: Ismeri *et al*, 2010: 119

The assessment of the importance of EU Cohesion policy in relation to national economic policies turned out to be an extremely difficult task for national experts. In most cases, the information given concentrated on the amounts and percentage of EU funding, either in the state budget or in operational programmes implemented in a given Member State. There were very few attempts to estimate the influence on national policies. In most new Member States, this can be explained to a large extent by the very real concentration of attention on Cohesion policy measures. Another possible explanation is that monitoring and evaluation instruments are not that widely used outside the Cohesion policy framework and

also, in the case of quite a number of “older” Member States, there is no readily available recent data. Anyway, the quest for data allowing for the estimation of influence of Cohesion policy on domestic policies appears to be a challenging one for the national experts.

Beginning with the EU10, only some countries provided information on relative financial importance. However, in most cases, the data provided refer to co-financing within Cohesion policy measures. According to Slovak data, Cohesion policy funding is equal to 17.8 percent of the state budget and the importance of it is the highest in the field of innovation (88 percent), employment (57 percent) and transport (48.5 percent). In the case of Latvia, stress was placed on the fact that certain policy areas have received financing only due to Cohesion policy. Information on the Slovenian case suggests that EU funding does not have very high profile as in financial terms Cohesion policy and CAP together amounted to 3.6 percent of all executed expenses. Romania considers EU funding as vital for domestic policies (clearly including here all measures co-financed by the EU), though the financial difficulties caused by the crisis might have a negative effect on the ability for co-financing the EU programmes. In Poland, the data available suggest that EU Cohesion policy funding represented in 2007 35 percent of all structural³² public spending and were expected to increase (MRD, Polska, 2010: 22). Bulgaria - as well as Lithuania and Hungary - provide relatively little information on the structure of financing of Cohesion policy operational programmes (with almost all priorities co-financed by the EU at 85 percent). The Czech Republic does not provide any hard data and concentrates attention on “soft” elements of influence.

Figure 6.1: Relative importance of Cohesion Policy on selected domestic policies. Case of Poland

Policy	Key fields of influence
Economic	concentrated on innovative measures and entrepreneurship development
Regional	allowed significant increase of spending on basic infrastructure and, to a lesser extent, on support to SMEs and human resources
Transport	helped prepare and finance national programmes of transport development with particular stress on motorway construction and railway modernisation
Environment	concentrated mostly on sewerage and waste water treatment plant construction (with little funding for other waste management problems)
Employment	introduction of very large programmes to actively counter unemployment (mostly training)

Source: Own estimations on the basis of MRD 2008, MRD 2009.

The situation is different in the more affluent Member States. In Finland, the share of ERDF programmes is €534.8 million (covering both EU and State components) of the total of €1,172.2 million in financing national policies for regional development in 2010. In Sweden,

³² Structural here means funding that can be theoretically supported financially by Structural Funds and the Cohesion Fund.

the data presented only for regional policy say that EU funding in 2008 was equal to 36 percent (about 1,782 million sek). In Denmark, nearly one-third of expenditure of the Regional Growth Fora (statutory bodies) comes from EU sources. In Ireland, the role of EU funding is decreasing fast (in 2000-2006 the share of Structural Funds and the Cohesion Fund in the National Development Plan was €3.7 billion compared to €57.1 billion in total). Subsequent major declines of the role of EU funding led to the decision to separate it from national programming.

In Belgium, the financing of domestic and EU policies is said to be “closely interlinked”, but no detailed information was provided other than the structure of EU co-financing in operational programmes. There was a similar situation for France, Germany, Luxembourg, Spain, Greece and Malta while no detailed information was provided for Italy or Portugal.

In the Netherlands, the national expert reported that the Cohesion funds financial aid is seen by authorities as a complementary contribution for the national policy on regional socioeconomic development. EU Cohesion policy financing to the Netherlands for 2007-2013 is equal to €2 billion, an amount doubled by Dutch co-financing.

Regardless of whether the country in question is an old or new Member State, specific information on the influence of Cohesion policy funding on domestic policies aimed at social and economic cohesion was in most instances not available. There were a few exceptions (such as Poland) where the authorities tried to estimate the importance of Cohesion policy to overall development expenditure, but even here the data on specific policies outside Cohesion policy framework are not collected.

6.5 Interrelationships

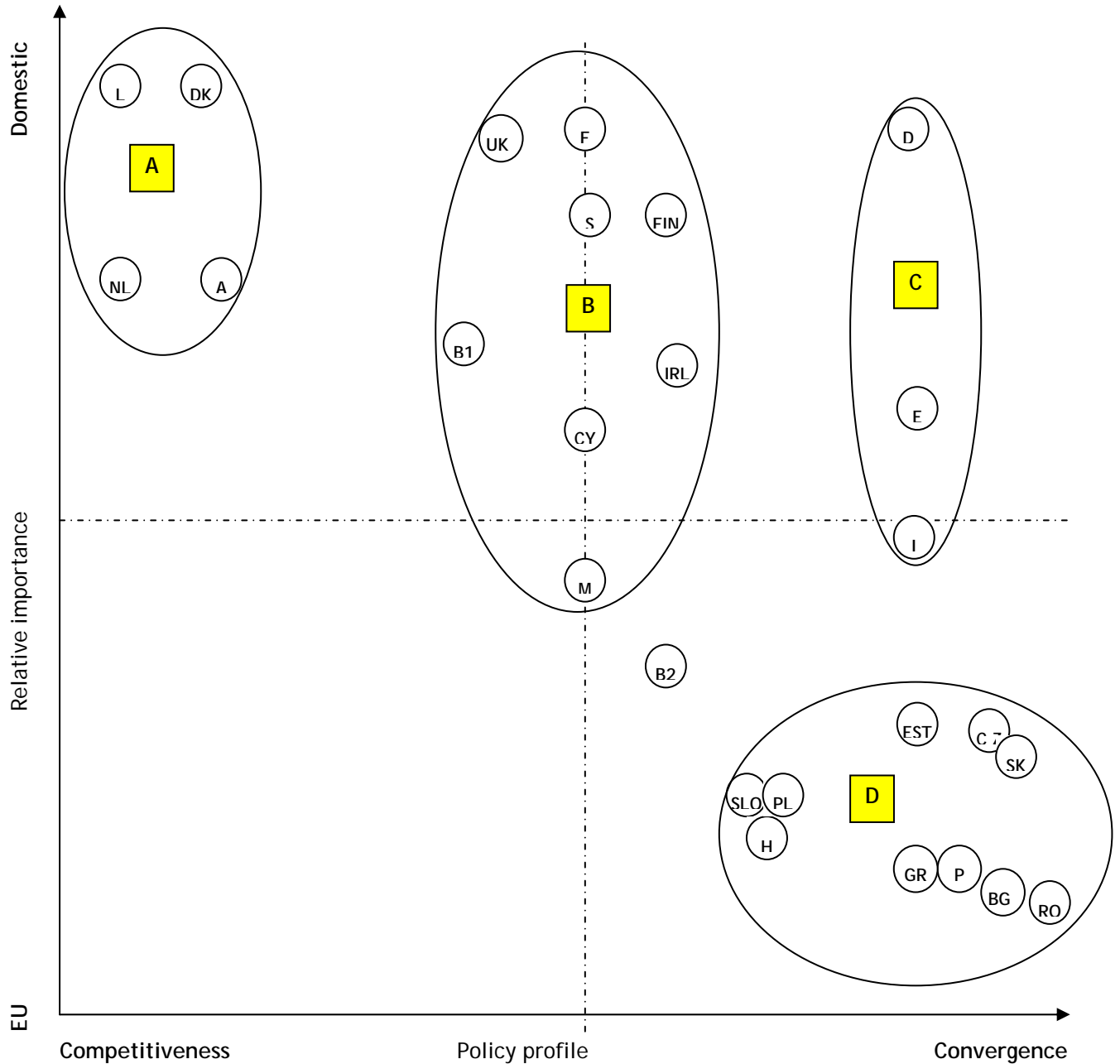
It is not surprising that the interpretations and implementations of the two major dimensions of the Cohesion policy (relative importance of the EU funds and policies and the convergence-competitiveness orientation), as adopted and performed in particular Member States, are mutually interrelated. These interrelationships are presented in Figure 6.2.

The general observation is the following: there is a strong and direct relationship between the importance of the EU policies in the formulation of the national objectives of development policy and the share of EU funds in overall development spending. This is represented by the general distribution of the Member States along the diagonal of the graph, and a lack of any entries in the lower-left quarter (i.e. there are virtually no countries which strongly rely on EU funds and policies and do not follow the convergence principle which traditionally constitutes the meaning of “cohesion”). This observation should not be surprising due to the fact that the richer countries of the EU are covered by the Competitiveness objective of Cohesion policy, while the poorer countries are to a larger degree (if not exclusively) supported by the Convergence objective.

The group of countries in the upper-left corner of the graph (group A) consists of the highly developed, rich Member States with relatively weak interregional differentiation and strong commitment to innovation and productivity as the main driving forces of their development policies. National competitiveness is the major dimension of these policies, with relative

neglect of the regional/territorial issues. These countries understand Cohesion policy according to the essence of Lisbon strategy, and no doubt will be the forerunners of the “smart growth” principle specified in Europe 2020.

Figure 6.2



B1: Flanders, Brussels; B2: Wallonia

The next group B may be labeled as the Member States for which regional competitiveness is an important pillar of their development policies. It consists of two (overlapping) subsets: the one comprising big, strong economies (UK and France), two Nordic countries (Sweden and Finland) and a set of smaller countries/regions, such as Cyprus, Malta, Ireland and

Flanders of Belgium. The first four countries definitely orient their development policies in the same line as the former group, i.e. stressing innovativeness, productivity and technological progress as the main pillar of economic development – however assigning more importance to the regional issues than the countries of group A. Besides UK and France, the countries of the rest of this group display a specific territorial problem: the geopolitically driven objective to maintain population and economic activity in the furthestmost northern territories of the Nordic counties, the political division of Cyprus and the dominances of the capital city in Malta.

The set of Member States in which Cohesion policy is driven by the convergence objective is the most heterogeneous one (groups C and D on Figure 6.2). It consists of all southern and eastern Member States and Germany. However, the importance of the Cohesion policy divides this group clearly into richer (group C) and poorer (group D) countries: the former formulate their own policies, and can finance them from their own resources, which EU Cohesion policy funds and instruments only supplement (like in Germany), while in the new Member States as well as in Greece and Portugal the policies are almost totally – at least according to the strategic documents – formulated and funded according to the principles and budgets of EU Cohesion policy.

The position of the new Member States is especially instructive. Before their accession, all conducted their own stronger or weaker regional policies. Beginning in the 2000s, EU Cohesion policy started to influence them in a substantive way – national strategies of regional development were structured according to the principles of EU Cohesion policy, and the financial instruments – as weak as they were at that time – were designed broadly in line with EU assumptions.

The situation changed dramatically after accession, and especially during the current financial perspective. Policies have been almost totally subordinated to those agreed with the Commission, and domestic financial recourses have been used only to fulfill the additionality principle.

Is this the reason for such a strong subordination to the Convergence objective? Partially yes, since almost all these countries are being relatively heavily financed by the Convergence objective, which implies that the funds arriving from the EU have to be spent on projects related to the operation of Cohesion policy. The richer countries, in which EU financing plays a much smaller role in comparison to national funds, may be more selective and may put more stress on projects and actions enhancing their international competitiveness, with a greater disregard to interregional disparities which may be much smaller than elsewhere, and therefore less important than the overall growth of the national economies.

It should be also noticed that there might be some difference between the formal statements in the official documents related to regional policies and their cohesion dimension and other policies undertaken in these countries. Nominally devoted to convergence-driven cohesion some countries (like Poland, where this is clearly pronounced) support also policies that may have diverse results, like stressing the role of metropolitan cores or as some of them call “growth poles” for the overall economic success of national

economies in the global scale, or directly supporting investment projects even if these are located in major cities and localities already better developed. Also in Latvia and Estonia the capital cities are privileged in the absolute amount of EU funds directed to them (45 to 50 percent of the total national allocation), though in relative terms (by population or GDP) poorer regions might appear to receive more. These practices are related to efforts aiming at increasing the competitiveness of their economies, since there is a growing conviction that the orientation to low-cost competitiveness meets its limits.

It therefore needs to be checked in the future (after the results of Cohesion policies for 2007-2013 are assessed) to what extent the convergence objectives have been followed in practice - and if this has been the case, will they be successful - or will the "natural" forces of concentration and polarization prevail (which had been the case in the past).

6.6 Influence on governance

While it is relatively difficult to assess the financial importance of Cohesion policy on development policies and, in particular, on domestic policies outside the NSRF framework, most if not all EU Member States admit its significant influence on widely understood governance. Even in countries which declare that development policy similar to contemporary EU Cohesion policy was established before accession, certain elements of the governance system were either adopted from the EU or significantly strengthened under its influence. When assessing the impact in different Member States, one may notice that - as in the case of the previously analysed aspects - countries can be, to some extent, grouped. It should be stressed, however, that the dimension of governance does not necessarily follow the trends shown on Figure 6.2.

In Austria, where Cohesion policy funding is considered only a source of additional finance, undoubtedly the Structural Funds requirements for programming have provided an impetus for reflection on the co-ordination of institutions and the adjustment and improvement of existing support schemes. Interesting is the case of Sweden, where the national policy management system is considered more complex than the EU Cohesion management system. However, the actors are linked to each other since they often co-finance the same projects so, at least in these cases, the information flow contributes to improved co-ordination. As for development goals, these are in line with the Lisbon strategy, which, however, in Sweden is more vigorously implemented. In other Member States advanced in Lisbon strategy implementation (except for Ireland which has separated out EU programming) stress is being placed on co-ordination and thus also on EU governance principles. In Denmark, decisions about strategies and individual projects are taken at the regional level, which effectively means that financial decisions are taken by the same bodies irrespective of the source of funding. Despite some minor differences, regional partnership bodies are in general simultaneously the central bodies in relation to both national and European regional policy in Denmark. While overall strategic coordination is provided by the six priority areas in the 2005 Business Development Act, practical co-ordination between the two policy streams (national and EU) with regard to implementation is ensured by the pivotal role of the Regional Growth Fora in both. In Luxemburg, national and EU Cohesion policy coincide. Rationalisation of administrative operations is seen as depending on improved inter-ministerial coordination, as the system is

centralised in Luxembourg. However, plans are being made to bring localities closer to decision making system and improve also multilevel governance.

In Finland, at the regional level, regional programmes and plans, as well as the Regional Management Committees as the partnership organizations, are intended to ensure the close co-ordination of EU and national actions and measures. Also in France, there is a close relationship between national and Cohesion policy both in terms of policy design and implementation (through common timescales, fields of intervention, management, monitoring systems etc.). In Germany, the national system incorporates most of the available EU support. As a result, there is little or no difference in management terms. However, EU instruments like the National Strategic Framework or Operational Programmes are new approaches for Germany. As with Austria, in federal states the very existence of more complex administrative systems makes it easier to adopt EU Cohesion policy principles of multi-level governance.

In the case of those Member States discussed earlier, where domestic development governance systems were to a large extent in place prior to EU Cohesion policy expansion, EU instruments contributed to improvements in various aspects. In less developed countries, regardless of the time of accession, it seems to be justified to say that the impact of Cohesion policy on the national governance systems was major.

In Italy, after a long period of adjustment, since 2007 domestic regional policy has converged fully with EU Cohesion policy. The spheres of action of the domestic strand are in some instances the same as those for Cohesion policy, thus boosting their intensity; while, in other instances, they may be different, designed to foster the territorial or thematic integration of the action. The main novelty in respect of the 2007-13 period is that, for the first time, domestic policy is also implemented through multiannual programmes.

Greece belongs to group of countries which see Cohesion policy to have had a significant influence on national policy governance through adoption of elements of reporting, monitoring, evaluation, the partnership approach, and financial management. Cohesion policy has opened up opportunities for institutional learning for the public sector. The specification and standardisation of procedures, (e.g. project appraisal and selection, financial management, public procurement and tendering procedures, monitoring of projects etc.) through guidelines issued by the 2000-06 CSF Managing Authority, specialised manuals and guides and the need to respond to the CSF monitoring and financial management requirements via sophisticated information systems, have developed a management culture which has also been transferred to the domestic system.

Spain represents a similar approach which can be depicted concisely as follows: public national and regional administrations are based on EU requirements for processes regarding the design, management, implementation, control and evaluation of programmes and projects. Regarding EU Cohesion policy impact on the implementation of national policies, Spanish public administrations have adapted not only their objectives and measures but also their timing and programming rules completely to the EU Cohesion funding framework.

Though, in the Netherlands, the Structural Funds and the major domestic programme (Peaks in the Delta) are considered separate, Structural Funds are much more closely

integrated with existing national policies, with funding decisions taken as part of the same decision-making process (however Cohesion policy management rules are seen often as overly bureaucratic). The impact is visible in particular in improved partnership, better co-ordination in programme design, management and implementation.

Despite all the specificities of Belgium, at both national and regional level Cohesion policy plays a relatively limited role in development policies mainly through similar Lisbon oriented objectives. In other fields it is mainly in respect of evaluation that Cohesion policy has brought real innovation.

EU Cohesion Policy plays an important role in developing domestic policy in Malta. The two are managed and implemented in a closely integrated manner and the funding mechanisms for EU Cohesion policy and national policy are centralised and, to avoid duplication of resources, are not distinct.

As in the cases of Greece or Malta, for most CEE countries the impact of EU Cohesion policy systems is obvious, though its scope differs. From the very beginning of the pre-accession period, Cohesion policy has had a huge impact on the implementation of national policy - including policy design, management and evaluation - in Romania. The institutional changes have been accompanied by operational changes, derived from working with EU funds procedures. It is expected that some mechanisms will be internalised in national structures as well. Important cultural changes have also occurred, in relation to much higher awareness about equity-related issues, about living, working and travelling in the EU space.

In Hungary, domestic regional policy is considered by some to be "inferior" to (dominated by?) EU Cohesion policy as the institutional structure is almost the same and programming and implementation are exercised on a residual basis: domestic development priorities are left uncovered by EU Cohesion policy. Elements of reform of domestic policy are seen as imported from EU Cohesion policy (multi-annual programming, operational programmes, objectives-priorities-measures logic, etc.) which leads to a conclusion that there is a substantial cultural and operational impact.

While formally in Bulgaria there is no integrated system concerning national and EU Cohesion policy management, implementation and evaluation, it is expected that such a unified system will be built soon. Despite that, institutional changes, internalisation of programming approach and cultural change are seen as the main features of the EU impact on Bulgarian governance.

In the Czech Republic the experts have no doubt that the impact of EU Cohesion policy on the design and implementation of Czech national policies as well as on changing institutional culture is clearly discernible. It has had also significant influence on the institutional culture (seeking a rationale for investment decisions, control, monitoring and evaluations systems, partnership principle etc.). It is however underlined that the new approach to spending public money (prioritising value for money) stems directly from the Cohesion policy framework. Nevertheless, certain doubts are expressed about whether the impact on domestic financial sources has already been fully proved.

In Poland, despite all the positive influences that can be observed in public administration and other institutions involved in administering development policies, it is clear that there is still a gap between policies (better said: programmes or interventions) made outside the Cohesion policy framework and those dominated or being a part of EU Cohesion policy. For instance, in the case of evaluation it is a routine only in the case of EU Cohesion policy. Decision making is separate, though done mostly by the same institutions, though not always by the same decision-making body. One should notice, however, a steady convergence: rules on selecting projects become similar between “domestic” and “EU-driven” spheres of public policies. Negative and positive experience in management is being transferred from one to the other sphere. Institutional set-up and decision making procedures are getting more and more similar. It should be stated that, wherever there is a direct link and co-financing from the EU, policy design, management and evaluation is strongly impacted by Cohesion policy. In other policies or activities, which are not directly linked to Cohesion policy, that influence is limited. One of the best examples is the fact that almost all evaluations done up to now refer only to measures/documents co-financed by Cohesion policy. Therefore, one can observe rapid institutional, operational and cultural changes which are, however, limited to institutions and businesses which are involved as managing or implementing actors, experts or beneficiaries

Slovakia is an interesting case where the separation of national and EU systems is undisputable. As a result, the overall impact on domestic policy has been limited, largely due to the separation of implementation systems and structures. Nevertheless, it is possible to identify some impacts of Cohesion policy on policy design, management and evaluation in national policy. What is more, the experience of the state administration and the regional governments in preparing the operational programmes has been used in policy design at national and regional levels. There have been efforts to integrate monitoring and evaluation into the management system of national policies, partly as a result of their compulsory use in the management of Cohesion policy. In spite of this, more significant institutional changes and changes in the culture of policy management are seen as slow due to the short time since accession and the features of the public administration in Slovakia.

In Slovenia domestic funds and the Structural Funds are being allocated through the same channels. Cohesion policy has played an important role as early as the 2004-2006 period through the introduction of new management and implementation systems as well as new forms of intervention. The main innovation was the improvement of inter-ministerial coordination and sustained efforts to achieve synergies among involved actors.

Also in Latvia the impact of Cohesion policy is seen as positive and considerable. Spillover effects that have occurred as a result of the establishment and functioning of Cohesion policy Management and Implementation System (MIS) have become an integral part of the administrative culture. However, it is said that still more progress is needed in such areas as “more ‘co-operative’ forms of public governance”. In case of Lithuania, Cohesion policy, even if formally separated from domestic policy, is largely merged with the latter. Both have the same objective, social and economic cohesion, and share similar management schemes. In Estonia, Cohesion policy has had a large impact on Estonian regional development policy. In particular, the 2005 Regional Development Strategy was specifically

designed to update the previous strategy in order to adjust the parameters of national regional policy to the needs of EU Cohesion policy.

Bulgaria and Romania still present several deficiencies in institutional capacity and efficiency of the system managing the EU Cohesion policy. It is being indicated that this becomes one of the most important barriers for efficient implementation of this policy and proper spending of the funds earmarked for these countries.

To sum up, the influence of Cohesion policy on domestic institutions and governance is seen as very important in almost all countries. In most cases, however, there are clearly two more or less separate systems (national and EU) which to a different extent are interlinked and coordinated. Undoubtedly even in Member States which see themselves as predecessors of contemporary Cohesion policy (its Lisbon element in particular) there is no doubt that at least rules and solutions proposed in Cohesion regulations (like the partnership principle or evaluation) were adopted for internal practice. Interestingly, only Ireland is discussing the possibility to re-separate domestic and EU delivery systems.

While better developed countries tend to use Cohesion policy instruments and regulations instrumentally through coordination with long-established domestic systems, the newer Member States tend to see Cohesion policy as a powerful instrument to develop and improve existing institutional systems, operational abilities and institutional culture. It has to be stressed that two main processes have been strengthened (or even initiated) in these countries due to their entrance into the EU and implementation of Cohesion policy: strategic planning and evaluation. These two dimensions have begun to create new institutional culture and their impact on performance of public administration is clearly visible.

It is sometimes argued that the evaluation practice of the Commission does not allow for comprehensive analysis of general impacts of different EU policies that are financed from different sources, even within the general Cohesion policy (like separate evaluations of the ERDF with the Cohesion Fund and of ESF, not to mention lacking evaluations on territorial development of the CAP).

The findings of this report are generally in line with previous reports on similar issues. Recent ex-post evaluations also stress spillovers to other policy areas in the form of improved partnership, monitoring and evaluation or transparency (Ismeri *et al*, 2010: 161)

The question remains, to what extent these processes make a real impact on those parts of administration which are not directly linked to Cohesion policy. It is most likely that in this area the process has just started as there is no firm proof yet found in newer Member States. The allocation of large competences in development planning and management to the regional level is typical for those countries. This is reflected also in terms of the responsibility for EU Cohesion policy resources.

7. THE CRISIS AND ITS IMPACT ON COHESION POLICY

7.1 Introduction

The aim of this chapter is to provide a brief overview of the implications of the economic crisis for regional problems and national regional policy responses. This draws on a comparative study by Davies *et al* (2009), as well as on the Part II Country Reports. Following this introductory sector, this chapter considers the impact of the crisis on regional development (Section 7.2) and goes on to summarise the regional policy responses (Section 7.3), before seeking to group countries in relation the effect of the crisis on Member State approaches to regional policy.

One set of factors that has shaped the impact of the crisis on the economic development of different regions concerns their initial strengths and weaknesses. This includes the size of their internal market and their access to larger external markets, as well as endowments in natural resources and in physical, human and knowledge capital. The situation of individual regions is also conditioned by the broader national context. In a number of countries, structurally weaker regions are among those which have been most seriously affected by the crisis. There are also concerns that the longer-term impact of the crisis could be more serious in these regions, where the loss of even relatively small numbers of firms and jobs could have significant effects, particularly if these losses lead to reduced demand for goods and services from other local firms.

A further dimension that has affected the impact of the crisis on specific regions is their sectoral structure. In general, a region's vulnerability to adverse economic shocks is seen to be correlated with its sectoral specialisation, although the degree of regional specialisation has decreased in Europe since the 1950s, not least due to the expansion of public and some private services in all regions. In 2008-9, some sectors were directly affected by the first stages of the downturn, notably financial services, export-oriented manufacturing and the construction industry, while other sectors have mainly experienced second-wave falls in demand. Regions which specialise in a narrow range of sectors are particularly vulnerable to sectoral shocks; a key concern in such regions is that the recession could permanently reduce the number of firms and jobs in core sectors, leading to a structurally lower level of output and employment even after the downturn has passed.

Although the main focus of all governments' response to the crisis has been national rather than regional - certainly in the first instance - the discretionary fiscal policies introduced by most governments include some explicit or implicit regional dimension. In some countries, the crisis has led to the allocation of additional funding or to changes in eligibility rules in core regional policy instruments. The scale of new measures varies, but most are modest and take the form of small rises in funding allocations or shifts in eligibility requirements. A number of countries have also introduced changes in Cohesion policy programmes and have taken advantage of the changes introduced by the Commission in response to the crisis. Some countries are also taking steps to improve cooperation and to mobilise all available resources and information in order to increase the effectiveness of policy responses to local and regional difficulties. In a minority of countries, the need to release funds to address

the crisis has led to a reallocation of resources away from regional policy and towards other policy instruments. Lastly, governmental authorities in some countries argue that the recession should not be allowed to stimulate shifts in regional policy because it is a long-term structural policy which should not be used to address cyclical problems.

Many countries are channelling additional fiscal resources through the regional or local level outside the sphere of active regional policy. In some cases, funds have been targeted at particular locations that are strongly affected by the crisis, for example due to the closure of large businesses or plants. In others, new central State resources are being allocated to all regions, often in the form of new funding for local authorities, particularly for investment in local infrastructure. Moreover, some regional or local authorities are developing their own responses to the crisis, usually by drawing on new resources from the central State or by reorienting existing funding.

Other interventions have an implicit regional dimension, as they focus on sectors or activities that are more prevalent in some regions than in others (but aim primarily to support national economic growth and employment). Most countries have introduced some measures which target particular sectors (notably the financial services, automotive industries, construction and renewable energies sectors) and in many countries these sectors are regionally concentrated. Governments have also allocated additional funding to activities such as investment in public infrastructure and R&D, which are likely benefit some regions more than others. However, some governments have cut some components of public infrastructure spending, which is likely to have a negative effect on the development of individual regions or localities.

7.2 The effects of the crisis on regional development

The economic crisis has affected EU Member States to different degrees, partly due to the fact that some sectors have been hit stronger than others (eg. export-oriented industries, construction). Where these sectors were of high importance to the country as a whole, this had negative effects on overall economic performance. Examples include the automotive sector in **Germany** and the financial sector in **Luxembourg**. Over time, the impact of the crisis has become visible in labour market terms with a significant increase in unemployment in most parts of the EU. In some countries, such as **Slovakia**, labour market effects have been further intensified by the return of migrant workers from abroad. Within countries, the picture is even more diverse. In many cases, traditionally weaker regions have faced greater problems (eg. in the **Czech Republic**, **Finland**, **France**, **Ireland**, **Slovakia**, **Slovenia**, **Spain**, **Sweden**). These include old industrial regions on the one hand (eg. in the **Czech Republic**, **France**) and peripheral and rural regions on the other hand (eg. in **Finland**). However, in several countries, traditionally stronger regions have also been severely hit by the crisis and, in some cases, these regions have been *more* affected than weaker ones, as in **Belgium**, **Germany** and **Ireland**. In some countries, there has been a temporal dimension to the consequences of the crisis. Thus, in **Bulgaria**, the crisis initially affected mostly small and predominantly industrial municipalities; later, larger cities and municipalities also started to face significant problems. In **Italy**, the crisis initially affected the more developed areas of the Centre-North most, but then gradually worked its way south to the less-developed areas of the country.

7.2.1 Regional vulnerability and resilience in the wake of the crisis

Overall, it appears that the high concentration of industrial activities across the EU has led to a high degree of vulnerability for some European regions. This has been the case for many traditional industrial regions, such as Limburg and Noord-Brabant in the **Netherlands**, the North and Centre regions in **Portugal**, the western regions of **Slovakia**, and the North of England and Midlands in the **United Kingdom**. More generally, the drop in global demand has affected regions dependent primarily on export-oriented industries (such as particular regions in **Austria**, **Germany** and **Sweden**). In addition, lower private household consumption is expected to affect, in particular, specific regions strongly dependent on the tourism sector (as in **Austria**, **Cyprus**, **Greece**, **Malta** and **Spain**). In Portugal, for example, tourism in the Algarve has suffered a sharp decline in traditional foreign markets. The construction sector, which in many cases is closely connected to tourism industries, has been particularly affected in **Cyprus** and **Spain**.

More generally, for regions with economies dominated by one or a limited number of sectors, it has been difficult to mitigate the repercussions of the crisis (eg. regions in Finland, Sweden and the United Kingdom). These examples include a range of very diverse regions. In **Finland**, economic activity has decreased mainly in rural areas due to their dependence on a struggling forest industry. In contrast, in the **United Kingdom**, there has been a significant impact on the capital region - the South East and London - reflecting the dominance of the financial service sector. The most pronounced effects have occurred in areas where the key local employer went bankrupt (eg. in the Czech Republic, Ireland, Slovenia). In some regions in **Ireland**, the loss of large-scale manufacturing plants is having not only a considerable impact on the local economy but also on local communities as a whole. In contrast, countries characterised by a fairly diversified structure have proved to be relatively resilient. Their ability to cushion the effects of the crisis is also apparent at the regional level, eg. in parts of **Austria** and the **Czech Republic**. Moreover, regions mainly relying on comparatively stable sectors such as agriculture, the food industry and knowledge-intensive business services (eg. Flevoland, Groningen and Utrecht in the **Netherlands**) were found to be less affected by the crisis.

7.2.2 Crisis-related changes in regional disparities

Looking more generally at recent developments in regional disparities, the effects of the crisis have been quite diverse. In some countries, it appears that the key features of the regional problem have remained broadly unchanged. This is not only the case of countries where the crisis has had a comparatively low impact, such as in **Denmark**, but also in other Member States (eg. **Czech Republic**, **Luxembourg**, **Poland**). Where the crisis *has* had a significant impact on regional disparities, two different trends can be noted.

- *The crisis has further accentuated regional disparities in several cases.* In **Romania**, for example, there is a growing concern that the already existing disparities may deepen even further. GDP data shows that differences between the capital region Bucharest-Ilfov and the North East have increased in recent years. In other countries (**Finland**, **Germany**, **Hungary**, **Ireland**, **Italy**), there are concerns that, while the more dynamic regions are expected to recover relatively quickly,

other areas may not be able to benefit from a future upturn to the same extent. In Italy, for example, the structural weakness of the *Mezzogiorno* has intensified during the economic crisis and it may lose out when global trade and international demand pick up again.

- In contrast, *some Member States have experienced decreasing disparities*, at least with regard to some indicators, such as regional unemployment rates. However, this relative catching-up is usually the effect of stronger regions being hit even harder by the crisis (eg. **Belgium, Estonia, Lithuania, Sweden**).

Lastly, there is evidence that patterns of regional disparities have become more differentiated at the sub-regional level in some Member States (eg. **Belgium, Czech Republic**).

7.2.3 Reduced public budgets

Regional development has also been affected by a drop in public revenues, while costs have been increasing (eg. in the Czech Republic, Germany, Ireland). In **Germany**, this has affected especially the budgets of local authorities suffering from a fall in corporate and income tax at the same time as having to ensure welfare payments. A similar situation can be found with respect to *départements* in **France**. In **Bulgaria**, the crisis has also had a strong negative effect, especially concerning the budgets of larger municipalities. More generally, public expenditure has suffered from restrictions in some countries (eg. **Estonia, Finland**) or is expected to be affected in the near future (**Austria, Greece**), entailing lower levels of public investment. The pressure on public budgets has also meant that some public investment projects had to be delayed or cancelled (eg. in the Czech Republic).

As a result, regional disparities may become more acute in certain cases. In **Germany**, it is feared that the introduction of tighter fiscal policies could have a relatively stronger impact in the new *Länder* due to higher levels of public sector employment. In **Hungary**, central funding has also been reduced, but the tasks allocated to the municipalities have remained the same. As a result, municipalities have turned increasingly to their own revenues, as well as EU funding, and other funding sources. In **Poland**, pressures on public budgets have led to tensions between richer and poorer regions and conflicts over the calculation of fiscal equalisation mechanisms. Regional inequalities in **Finland** are also expected to increase further given the reduced ability of some municipalities to invest in services and knowledge.

7.3 The effects of the crisis on the regional policy response

Most Member States have taken significant steps to tackle the crisis, although this has not generally involved specific regional policy measures. For instance, dedicated government packages with a focus on business support and labour market measures (eg. in **Austria, Cyprus, France, Netherlands, Slovakia**) have not had a specific regional economic development orientation.

7.3.1 General public investment

In many Member States, public investment has been increased or brought forward. Examples include **France**, with a focus on the railway and higher education sectors, and **the Netherlands**, where investment was targeted at education and knowledge, sustainability, infrastructure and housing. In **Portugal**, additional funds were provided for school infrastructure, urban regeneration, sustainable energy and ICTs. In **Sweden**, grants to municipalities and counties have been increased in order to consolidate their financial situation. Similarly, in **France**, the reimbursement of VAT payments by local authorities has been brought forward in order to stimulate investment. In **Spain**, the lack of public funds, especially at the local level, led to the introduction of a €8 billion fund for immediate investment in new public works projects. Funding is distributed across the whole of Spain and allocated to municipalities in relation to their population.

In most cases, there is no explicit regional orientation to public investments; however, sectoral investment choices can have implicit regional effects. For instance, the increase in public investment in construction in **Cyprus** has a spatial dimension insofar as many of the projects are located in rural areas. A targeted approach has been taken in **Italy** where some investment projects, such as the development of strategic infrastructures, have been allocated to weaker regions. It appears, however, that government support programmes may also have perverse effects and lead to an aggravation of disparities. In **Portugal**, for instance, most public support to address the crisis was directed at the banking and financial sectors, largely located in the capital city. In **Poland**, business support elements of the government's crisis response are also found to have an implicit spatial orientation, favouring larger urban centres.

It needs to be noted that, as a consequence of the crisis, a number of Member States were granted loans by the IMF (**Greece, Hungary, Latvia, Romania**), and in Poland an IMF Flexible Credit Line Arrangement was approved which is intended to be treated as precautionary (i.e. the Polish authorities do not intend to draw from it). Related to this, but also in response to a considerable decrease in GDP, the European Commission has targeted additional advances of €775 million (4 percent from ESF and 2 percent from the Cohesion Fund) at five Member States under the June 2010 simplification measures (**Estonia, Hungary, Latvia, Lithuania, Romania**).

7.3.2 Implementation of existing regional policy instruments

Looking at regional policy more specifically, many Member States have *not* changed their approach to regional development policies (eg. **Austria, Greece, Hungary, Lithuania, Netherlands**). In these countries, regional policy is seen as a longer-term structural policy rather than a tool for crisis management. In a number of cases, authorities have improved the accessibility of regional policy funding (**Belgium, Denmark, France, Germany, Portugal, Spain, United Kingdom**). Implementation rules have been simplified or the range of potential beneficiaries extended. In Belgium and France, award conditions have been relaxed for some regional aid schemes. In France, this included a relaxation of eligibility requirements for the PAT regional development grant (*prime d'aménagement du territoire*) and the introduction of tax exemptions in newly-designated labour market areas. In the

United Kingdom, amendments were made to aid eligibility criteria to make support more widely available, including increased availability of SME support outside assisted areas. In **Portugal**, eligibility rules have been relaxed under the various domestic regulations governing Cohesion policy. Examples are advance payments to firms and efforts to speed up project approval. The Regional Investment Grant in **Spain** has also been adjusted; in order to give more weight to stable job creation, higher rates of award apply to projects that generate employment. Finally, in **Denmark**, some Regional Growth Fora have launched new financial engineering measures.

Nevertheless, in a number of cases, there has been a temporary reduction in the demand for certain regional investment support; however, this is in line with a decline in investment more generally (**Austria, United Kingdom**). In contrast, funding in **Hungary** has been insufficient in a situation of growing demand. Bottlenecks linked to a lack of co-financing have also caused problems with project implementation, such as in the case of the municipalities in **Finland** and for innovative projects in **the Netherlands**.

In a context of budgetary pressures, funding for regional policy has been cut in several countries (eg. Italy, Ireland, Estonia, Romania, United Kingdom). In **Italy**, the budget of the 'Fund for the Underutilised Areas' was reduced from €63 million to €53 million for the 2007-13 period. This has entailed a concentration of resources on objectives deemed a priority for the re-launch of the Italian economy. In **Ireland**, expenditure as part of the National Development Plan decreased by around 20 percent in 2009. These expenditure cuts are expected to have a negative effect on the implementation structures for regional policy since funding for Regional Development Agencies was reduced, and the government is considering reallocating responsibilities and merging some organisations. In the case of the **United Kingdom**, much of the current dismantling of the regional policy framework in England is being framed within a context of reducing the UK's budget deficit, involving a freeze on elements of 'Single Pot' spending such as the main regional incentive scheme with significant implications for ERDF spending under the English programmes. In **Wales**, efforts to accelerate economic recovery have included a reallocation of spending under the main regional incentive scheme (SIF) away from direct business support towards infrastructure. In both cases, the focus on paying grants and subsidies to companies is significantly reduced.

In **Estonia**, cutbacks in the budget have resulted in lower financial resources for regional development in the 2010 budget. Similarly, in **Romania**, the crisis has had a considerable impact on domestic funding sources needed for the implementation of EU Cohesion policy; the Romanian Convergence Programme was amended, leading to a revision of objectives and domestic funding contributions to Operational Programmes across the board. As a result, there are concerns about absorption, and less developed regions have been experiencing difficulties in securing project co-financing.

In other cases, regional policy instruments have been put on hold or suspended (eg. **Bulgaria, Ireland, Latvia**). In **Bulgaria**, the economic crisis has led to a funding programme targeted at specific areas being delayed. Originally scheduled for 2010, the scheme could not be launched because the allocation of funds by the responsible ministry is still outstanding. In **Ireland**, the regionally-oriented Gateway Innovation Fund has been

suspended. Although the Irish government has continued to emphasise the importance of R&D, much of this type of investment is being delayed or deferred. In Latvia, the government has suspended a number of Structural Funds activities that were dependent on pre-financing from the state budget.

7.3.3 New regional policy instruments and bodies

In response to the crisis, several countries have introduced new regional policy instruments or increased the funding for existing ones. In Germany, an additional €200 million was allocated to the main German regional policy scheme, the 'Joint Task for the Improvement of the Regional Economic Structure'. These funds are being shared evenly between old and new *Länder*, unlike mainstream funding, of which six-sevenths are targeted at the new *Länder*. In addition, a business support scheme has been awarded an extra €0.9 billion in 2009-10; while it is aimed at the new *Länder*, firms in the old *Länder* are also eligible on a temporary basis. A number of other countries have introduced new instruments that target at the most affected regions:

- In the Czech Republic, a small support programme for economically weak regions was re-opened in 2010. Interventions under the programme are aimed at the development of infrastructure to improve accessibility and the business environment, the reduction of unemployment, and support for tourism development.
- In Slovenia, the most severely hit regions Pomurje and Bela krajina receive special treatment in 2009 and 2010. A law on support for the Pomurje region was introduced in late 2009, including a programme to foster regional competitiveness in 2010-2015, employment incentives, tax relief for investments, as well as priority treatment for programmes and projects in the region. There are also plans for a similar programme for Bela krajina.
- In France, the National Territorial Renewal Fund (FNRT) was created. It is targeted at economically-weak areas which, so far, have not benefitted from regional policy support.

An interesting approach has been taken in France and Sweden, where specific coordinators have been nominated to oversee the policy response at the sub-national level. In France, *Commissaires à la reindustrialisation* were deployed in ten of the worst-affected regions to coordinate the policy response and ensure it retains momentum. In Sweden, the government has appointed regional coordinators to report on developments and problems and to identify cross-regional responses in specific sectors and industries. In addition, a group of State Secretaries has been set up to facilitate national-regional dialogue.

7.4 Concluding points

To summarise, EU Member States can be divided into the following broad groupings according to the impact the crisis has had on the implementation of regional policy:

- *Little or no impact* (Austria, Cyprus, Denmark, Finland, Greece, Hungary, Lithuania, Luxembourg, Malta, Netherlands, Poland, Slovakia). This may be due to the generally low impact of the crisis (eg. Denmark, Poland) or the explicit long-term orientation of regional policy (eg. Austria).
- *More flexibility or funding for regional development policy:*
 - *Increase in accessibility of regional policy funding* (Belgium, France, Germany, Portugal, Spain, United Kingdom). This relates mainly to extensions of eligibility criteria and simplification measures.
 - *Additional funds and/or new instruments* (Czech Republic, France, Germany, Slovenia, Sweden), including targeted support at worst-off regions as well as the introduction of spatially-targeted policy coordinators.
- *Less flexibility or funding for regional development policy:*
 - *Budget cuts* (Italy, Ireland, Estonia, Romania), both relating to domestic instruments and Cohesion policy co-financing.
 - *Postponement or suspension of measures* (Bulgaria, Ireland, Latvia) with delays in funding or the withdrawal of instruments.

Looking at the longer-term impact of the crisis on the role of regional policy, negative impacts on the priority given to cohesion objectives can be observed in some countries (eg. Ireland, Romania, Slovenia). In Romania, the crisis is seen to have induced a shift in policy from a focus on convergence and cohesion towards competitiveness. Similarly, in Slovenia, economic factors have started to take precedence over social and territorial objectives. At the same time, the importance of regional policy as a means to tackle the crisis has been emphasised in Finland and in Hungary, the importance of social and employment-related measures is expected to increase in the future.

8. A TYPOLOGY OF NATIONAL APPROACHES TO COHESION

The final task under the terms of reference for this study is to draw up a 'general typology' of Member States' approaches to attaining economic and social cohesion. There are many pitfalls to this task and any classification is likely to be open to criticisms of arbitrariness or oversimplification. Moreover, the very absence of a concrete definition of 'cohesion' compounds an analysis of how Member States seek to attain this objective. Nevertheless, the detailed analysis on which this report is based shows that Member States take quite diverse approaches to addressing economic, social and territorial disadvantages within their borders. Moreover, the extent to which *external* benchmarks in levels of economic development are perceived to be important also varies widely - is cohesion perceived in relation to the national or the EU situation? Related, a key factor is the role of EU policies in shaping objectives and expenditure, but also in the extent to which the burden of cofinancing limits the scope for genuinely domestically-driven policies.

Any typology that seeks to group Member States according to their policy approaches is likely to be controversial. Nevertheless, in spite of the very wide diversity of the economic geographies of the Member States and their policy responses, it is possible to establish groupings where there are arguably more commonalities than differences between countries. This is the task of this final chapter.

Throughout the report, country groupings have been identified for different policy dimensions. There are two important points to note about the basis for the typologies presented here. First, the analysis is primarily qualitative and relies on the interpretation and understanding of the research team of the comparative assessment of various policy dimensions and of the country reports. Second, the typology is driven by only some of elements of policy. These concern, in particular: the *objectives* of policy; the *nature* of the national commitment to addressing internal disparities; the *types* of instrument and *scale* of policy; and, to a more limited extent, the *role of EU Cohesion policy* in terms of funding and impact on objectives. In addition, the *nature and scale of regional disparities* is an important contextual element. Conversely, although the report identifies country groupings in relation to the *implementation* of policy (Chapter 5) this has not been considered in devising the typologies outlined below. This is largely because governance structures are determined mainly by wider factors than regional development policy, namely, constitutional and institutional arrangements. Similarly, the assessment of the *impact of the crisis* on regional problems and policy (Chapter 7) has not been taken into account either. This is justified by the fact that, at present, the longer-term effects of the crisis on regional problems and policy are unknown.

Against this background, and notwithstanding the cautionary remarks above, five main types of national policy approach to cohesion can be distinguished, as outlined below.

Type I: Prominent regional disparities - regional development policy emphasis

Key features	<ul style="list-style-type: none"> • A legal (even constitutional) commitment to reducing disparities; this commitment is translated into policy • geographically large countries; around or above average EU prosperity • prominent and acknowledged regional differences that are accepted as the principal focus of spatially-differentiated policies • tendency to operate few (but comparatively large scale) instruments • national policy objectives dominate, although national priorities may be cofinanced through EU cohesion policy and EU funding may have been significant historically
Member States	Finland, Germany, Italy, Spain, Sweden
Comments	<p>Clearly these countries face quite different types of regional issue - remote sparsely-populated areas in the case of Finland and Sweden; economically less-developed areas in the case of Italy, Germany and Spain. Moreover, the role of EU Cohesion policy in shaping and financing national cohesion policies varies between Italy and Spain, where historically at least, EU policy has been significant in spending terms, and Finland and Sweden, where EU Cohesion policy spending, and influence, has been marginal. However, among the features that unite them are a clarity in the spatial focus of policy (well-defined areas of intervention) and a national consciousness of the need for intervention. Their inclusion in this group does not, however, mean that issues of regional <i>competitiveness</i> or <i>national</i> growth are unimportant.</p>

Type II: Diverse regional differences - regional competitiveness policy emphasis

Key features	<ul style="list-style-type: none"> • Diverse regional concerns - old industrial, rural, urban, etc. • national prosperity above EU average (but some regions significantly below) • emphasis on regional competitiveness as contributor to national growth • limited prominence given to addressing regional disadvantage, although some targeted measures remain • many low key instruments addressing diverse objectives • national policy objectives dominate; EU cohesion funding is limited and generally used to co-fund national priorities rather than influence them.
Member States	Belgium, France, United Kingdom
Comments	<p>There is, in effect no Belgian policy in the field of cohesion (national social protection systems aside), the Flanders and Walloon regions being responsible for the conduct of economic development policies. Taking the two regions together, as in France and the United, policy comprises a mix of instruments, some targeted at specific areas of need, some available throughout the country/region. In all three countries, regional problems have tended to be quite persistent, with the same areas targeted through several generations of policy. These are predominantly, but not exclusively, old industrial areas.</p>

Type III: Limited regional disparities - national competitiveness policy emphasis

Key features	<ul style="list-style-type: none"> • Limited regional disparities • geographically small, but prosperous - significantly above EU average • priority given to maintaining or enhancing national competitiveness, Cohesion policy interpreted in a “Lisbonised” sense • emphasis on social cohesion reflected in high level of social protection • economic development policies characterised by broad, but low-key, support to the business environment • limited role of EU cohesion policy both in funding and influence on objectives; tends to top-up existing national priorities, not set them.
Member States	Austria, Denmark, Luxembourg, the Netherlands
Comments	There are measures to address particular regional situations (the peripheral regions of Denmark, old industrial areas of Luxembourg, the north of the Netherlands, Burgenland and mountainous regions of Austria) but these are not viewed as serious regional problems. The emphasis is instead on a high level of social protection and the promotion of national competitiveness mainly through support for innovation and favourable business environment.

Type IV: Diverse geographical issues - national advancement policy emphasis

Key features	<ul style="list-style-type: none"> • Significant geographical issues either in relation to the EU (insularity/peripherality) or internally (mountain areas, islands, other isolated regions, capital city dominance) • geographically smaller Member States, generally just under EU average prosperity • promoting <i>national</i> competitiveness dominates policy • internal disparities may be significant and receive some domestic attention • EU cohesion policy either is or historically has been very important both in financing terms and in influencing national strategic objectives, but it does not necessarily dominate the national agenda or priorities.
Member States	Cyprus, Greece, Ireland, Malta, Portugal, Slovenia
Comments	This grouping comprises both EU15 and EU12 Member States. Although in many respects diverse, they are linked in geographical terms (see above) and in the role played by EU Cohesion policy. In the current period, Cohesion policy funding is broadly comparable in Malta, Portugal, Slovenia and Greece (as a percentage of GDP); in Cyprus it is significantly less and in Ireland much lower again, although historically it has been very important. However, EU Cohesion policy has had a significant influence on policy in all these countries, while not completely overshadowing national initiatives.

Type V: Widening regional disparities - national development policy emphasis

<p>Key features</p>	<ul style="list-style-type: none"> • National growth accompanied by widening regional disparities - growth essentially driven by development of metropolitan (most often capital) city regions • Less prosperous Member States; recent past dominated by economic and industrial restructuring and institutional reforms • Internal disparities receive attention in strategic documents, but in practice less prosperous regions often receive less than the metropolitan centres • The need to reshape patterns of growth from low-cost economies to more innovation driven models is growing in importance • National cofinancing of EU cohesion policy is significant (sometimes creating a heavy burden on national finances) and leaves limited scope for independent domestic initiatives • Policy agenda is dominated by EU Cohesion policy; significant both in terms of impact on objectives and financing.
<p>Member States</p>	<p>Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia</p>
<p>Comments</p>	<p>These countries are in many respects very diverse, with significant difference in levels of economic development between, for example, Bulgaria, Romania, Latvia and Lithuania, on the one hand, and the Czech Republic on the other. However, and particularly in contrast with Types I to IV, they share both a similar economic heritage and development trajectory and other traits. Moreover, although there is a degree of national consciousness of internal regional disparities, this is scarcely carried through into policy practice where the agenda is dominated by EU Cohesion policy; at the same time, the scope to operate truly domestic policies is constrained by cofinancing commitments.</p>

9. CONCLUSIONS

The purpose of this study is to identify which Member State economic policies are of most relevance to the EU objectives of economic, social and territorial cohesion, and to describe how such policies are designed and implemented with a view to determining how and to what extent they contribute to the achievement of these objectives. The aim of this concluding chapter is to draw out some of the key themes that emerge from the analysis of the country reports provided by the national experts (which are synthesised in Part II of this report) and from the comparative discussion in the main report.

An issue fundamental to the study is that there is *no concrete and consistent definition of the concept of 'cohesion'*. The different dimensions of cohesion (economic, social, territorial) have been the subject of Commission studies and academic and other analysis, but there is no agreement on definitions that can be operationalised and the boundaries between the dimensions are permeable. A key issue is that of benchmarks - cohesion in relation to what?

More recently a new approach to cohesion has been proposed, related to functional cohesion. In brief, it indicates that economic development and social progress can take place when relations between economic entities (economic cohesion), people and social organisations (social cohesion) are smooth and the transaction costs are low, which calls for territorial cohesion, ie. such an arrangement of space which makes the economic and social cohesion possible.

Interestingly, cohesion is not generally part of the domestic policy vocabulary, except in relation to the cofinancing of EU Cohesion policy. Nevertheless, various *types of policy objective are pursued 'in the name of' cohesion*. These are essentially fourfold:

- the reduction of regional inequalities, where the key consideration is to mitigate disparities between regions
- regional competitiveness, where the principal aim is the exploitation of regional potential as a contributor to national growth
- national competitiveness, where the main focus is on maintaining and enhancing the competitive advantage of the national economy
- national development, where the overriding objective, at least in the short-term, is to narrow the development gap between national prosperity and the EU average.

Running alongside these, many countries also address specific geographical disadvantages, notably remoteness and insularity, but also upland and mountainous regions.

Just as 'cohesion' lacks a concrete definition, so too does the *scope of expenditure on cohesion*. Nevertheless, three key points emerge from the analysis of public spending:

- expenditure on economic development generally appears higher as a percentage of GDP in poorer countries than in richer ones; *this ceases to be the case when the EU contribution to economic development spending is discounted*
- spending on social protection is the single largest item of public spending and dwarfs spend on economic development; it varies widely between countries, but *even in PPS per head, more prosperous countries spend more than less prosperous ones.*
- there are wide differences in the scale of *national* cofinancing of EU cohesion policy as a percentage of GDP; this is closely correlated with prosperity - poorer countries commit a significantly greater proportion of GDP to cofinancing Cohesion policy than do richer countries. Not only may this constitute *a significant drain on national spending*, but it also significantly *reduces the scope for a genuinely domestic regional policy.*

The *main national economic policies aimed at promoting economic and social cohesion* are three-fold: *narrow regional policies*, often targeted at designated aid areas or locations with specific characteristics; *broader policies for territorial development* which, while generally available across all regions, take a region-specific approach, often via regional strategies and programmes; and those *sectoral policies* which have an explicit or implicit economic cohesion dimension.

The *implementation of policy* varies considerably across EU Member States in line with the distribution of competences and resources at different levels. Countries' approaches can be placed on a continuum from the quasi-absence of the central state in regional policy-making, to an oversight role of a central ministry over the actions of relatively independent regions, to important coordination and budgetary powers retained by the central level, to a predominance of the central state over sub-national entities which exist mostly for planning purposes. However, the mapping of countries is not always clear-cut, and there are elements in some of the more regionalised or federal Member States which reflect quite strong historical commitments by the central state to regional development issues. Moreover, positions of the Member States on this continuum are not stable with on-going decentralisation and regionalisation processes in a number of countries. Vertical coordination is essential in the different institutional arrangement, although it is less of an issue in centralised unitary systems. There are increasing efforts to ensure the coherence of national and regional-level funding and priorities, sometimes also including sectoral funding commitments, through national-regional contracts or co-financing arrangements. Progress has also been made with respect to institutional coordination arrangements, including in some of the EU12.

Regarding the *role of EU cohesion policy*, the extent of EU influence over the *objectives of policy* is variable. In general, Member States reinterpret EU Cohesion policy according to their own needs and policies, and spend the financial resources obtained under this framework according to their own choices. Even the less-developed countries that receive the highest sums under the Convergence objective seem to follow their own preferences in specifying the strategic choices; in several cases the 'convergence' orientation of policy is

more nominal than real. *Institutional change* is one of the most visible factors of 'value added' of Cohesion policy, especially in the EU12. There is a growing role for strategic thinking, greater transparency of public procurement and the emergence of culture and practice of evaluation - these are the most important institutional and organisational results of the membership and adoption of procedures and principles of the European Union.

The *impact of the crisis on regional policy* has been variable. In some countries, there has been little or no impact. Others have increased funding for regional policy instruments or the flexibility in implementation. Elsewhere there may even have been a reduction in funding or a suspension/postponement of implementation. Looking at the longer-term impact of the crisis on the role of regional policy, negative effects on the priority given to cohesion objectives can be observed in some countries, while in others the crisis is seen to have induced a policy shift from a focus on convergence and cohesion towards competitiveness, and economic factors have started to take precedence over social and territorial objectives. On the other hand, the importance of regional policy as a means to tackle the crisis has been emphasised in some Member States, where the importance of social and employment-related measures is expected to increase in the future. EU Cohesion policy has had varied importance during the crisis. Only in countries which receive substantial resources under this policy can a positive impact on the financial situation be seen; however, until now, this is only on the demand side, since the longer-term effects are unclear. In few cases the internal financial difficulties have limited the use of the Structural Funds and the Cohesion fund, since the capacity to co-finance was reduced.

A key task of the report was to devise a *typology* of Member State approaches to Cohesion. The typology presented in this report is driven by several dimensions of policy, in particular: the *objectives* of policy; the *nature* of the national commitment to addressing internal disparities; the *types* of instrument and *scale* of policy; and, to a more limited extent, the *role of EU Cohesion policy* in terms of funding and impact on objectives. In addition, the *nature and scale of regional disparities* is an important contextual element. Any typology that seeks to group Member States according to their policy approaches is likely to be controversial. Nevertheless, and in spite of the very wide diversity of the economic geographies of the Member States and their policy responses, it is possible to establish groupings where there are arguably more commonalities than differences between countries. Against this background, five main types of national policy approach to cohesion can be distinguished, as outlined below:

- Type I: Prominent regional disparities - regional development policy emphasis
- Type II: Diverse regional differences - regional competitiveness policy emphasis
- Type III: Limited regional disparities - national competitiveness policy emphasis
- Type IV: Diverse geographical issues - national advancement policy emphasis
- Type V: Widening regional disparities - national development policy emphasis

In most countries, the competitiveness objective seems to prevail over the alleviation of interregional differences. In the more prosperous countries this is achieved through direct support for R&D structures and technology advancement. In the less developed ones - the central and eastern European countries - national competitiveness is being enhanced by directing large parts of EU funds to major cities (the 'growth poles') and major infrastructure connecting them to other cities and the outside world. Although the EU12 are supported under the Convergence objective, and they spend a great share of the funds on infrastructure, there is growing consciousness that the current sources of their competitiveness - relatively low costs of production - are being exploited, and that there is a need to shift from the 'low road' of development to more ambitious factors, like innovation and advanced technologies which might allow them to benefit from more profitable sectors of economic specialisation and more stable competitive advantage. This change in orientation towards the strategic goals of development will probably be stronger in the next programming period, thus relating the policies in these countries to the 'smart growth' principle of the Europe 2020 strategy.

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