

Regional development and policy in Europe

Contributions for the debate in Latin America

John Bachtler
Carlos Méndez
Heidi Vironen

Collection **Studies n 2**

Serie **Analysis**
Area **Decentralization**



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Published by:

EUROsociAL Programme
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28040 Madrid (Spain)
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With the collaboration of:

The International and Ibero-American Foundation
for Administration and Public Policies (FIIAPP)



European Policies Research Centre



This publication was prepared with the assistance of the European Union.
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Non-commercial edition.

Graphic production:

Cyan, Proyectos Editoriales, S.A.

Madrid, March 2014



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Preface

This report is prepared as part of the study of regional development and policy in Europe: contributions for the debate in Latin America. The aim of the study is to review and analyse the latest regional development policy trends in the EU countries, identifying experiences or good practice that could be useful to the Latin American countries. The study was undertaken by a research team from the European Policies Research Centre at the University of Strathclyde in Glasgow. Within EPRC, the study was managed and undertaken by the following team:

- John Bachtler
- Carlos Méndez
- Heidi Vironen

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Country abbreviations used in this report

AT	Austria
BE	Belgium
BU	Bulgaria
CY	Cyprus
CZ	Czech Republic
DK	Denmark
EE	Estonia
FI	Finland
FR	France
DE	Germany
GR	Greece
HU	Hungary
IE	Ireland
IT	Italy
LV	Latvia
LT	Lithuania
LU	Luxembourg
MT	Malta
NL	Netherlands
NO	Norway
PO	Poland
PT	Portugal

RO	Romania
SK	Slovakia
SI	Slovenia
ES	Spain
SE	Sweden
CH	Switzerland
UK	United Kingdom

1. Introduction

The purpose of the study is to provide a review and analysis of the latest regional development policy trends in the EU countries, identifying experiences or good practice that could be useful to the Latin American countries. The study is expected to contribute to the discussion and dialogue at a kick-off meeting of the Latin-American Network for Regional Development Policy on 2-3 December 2013.

The study was carried out in three phases integrating feedback from the project coordinators/partners (EUROSOCIAL-FIAPP, CEPAL) and the discussions at the regional policy network meeting in Brazil following the presentation of the draft report. The analysis draws on a number of EPRC research projects, primarily on two long-running programmes of comparative research: one on national regional policies in Europe and the inter-relationships with EU Cohesion and Competition policies (EorPA)¹, and the other on specific themes relating to the design, delivery, management and evaluation of Structural Fund programmes (IQ-Net)².

This structure of this report is as follows. The first part provides a comparative assessment of regional development policy trends in the EU, including analysis of objectives, strategies and instruments of regional policies, as well as the impacts on regional development in the countries. It then continues to discuss how national regional policies have been influenced by policy developments at the EU level before concluding on the latest developments on the debate on territorial cohesion in Europe. A selection of key topics is examined in more detail in case study examples. A final section draws together the key conclusions and sets out recommendations for future international knowledge exchange on regional policy.

1. See <http://www.eprc.strath.ac.uk/eorpa/default.cfm> for further details.

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

2. Comparative assessment of regional development policy trends in the EU

The aim of the first phase of the study is to develop a comparative assessment of regional development policy trends in the EU, including analysis of strategies, objectives and instruments of regional policies, as well as the impacts on regional development of the countries. More specifically, this phase covers the following:

- i. **National regional policies.** This sections aim to provide an assessment of the main challenges faced by the countries and analysis of the developments in national regional policies within the EU in the form of a comparative review of development processes and policy challenges.
- ii. **Influence of EU Cohesion Policy.** This section provides a brief analysis of EU Cohesion policy with a specific focus on how national regional policy is influenced by policy developments at the EU level.
- iii. **Debates on territorial cohesion.** This section provides a brief conceptual analysis and contributions to the debate on territorial cohesion from the European perspective.

3. National regional policies

3.1. Short-term problems and longer term trends

Regional policy largely focuses on longer term challenges such as development and restructuring. Increasingly, these structural issues are seen not only to involve socio-economic dimensions (e.g. growth, employment, public services and demographic issues) but also problems relating to sustainability (e.g. resource constraints and climate change). In many countries, however, the short-term horizon is dominated by continued problems in the Eurozone and elsewhere, reflected in weak growth, rising unemployment and constraints on public investment and other spending. These national and international challenges continue to be the key driving forces affecting regional development and regional policy processes in many European countries.

The economies of many countries have not yet returned to pre-crisis levels, and the effects of the crisis and downturn are dominating policy debates. National and regional GDP per capita and unemployment rates (in 2011-12) have in many cases not yet returned to pre-crisis levels, particularly in those countries that have been strongly affected by macroeconomic uncertainty, a loss of business confidence and fiscal constraints. In some European countries, however, relatively benign economic conditions and falling unemployment rates (in 2011 and the first half of 2012) have created a more favourable context for regional socio-economic development. Although there is variation across countries, most show a correlation between rises (falls) in national unemployment rates and falls (rises) in the dispersion of regional unemployment rates (in 2010-12), due to disproportionate changes in regions with initially low unemployment rates.

The effects of the crisis and downturn can seem to dominate current regional socio-economic trends and debates yet structural processes and factors continue to shape longer term development prospects. At the international level, two sets of longer term influences continue to grow in importance, namely economic rebalancing across the world's macro regions on the one hand, and the challenges of climate change and non-renewable resource constraints on the other. Together, these two processes have the potential to restructure radically the context for regional development in Europe.

From a national and European perspective, regional development also continues to be shaped by well-recognised drivers of geographical inequality. The tension between national and regional economic development is the primary feature of geographical disparity in most of the Convergence countries, along with the strong sectoral shifts that are inherent to the catching-up process. Further, all countries face issues relating to agglomeration and spread effects, with problems typically being most acute in the least accessible regions. In addition, endowments of human, knowledge, public and social capital strongly shape longer term development prospects, not least by embodying bottom-up potential and capacities. Lastly, government policies have a significant influence on regional socio-economic disparities, via explicit regional policies, interpersonal redistribution and fiscal equalisation mechanisms, and broader strategies, policies and frameworks that shape regional accessibility and capital endowments.

3.2. Policy responses

In response to the territorial challenges and trends summarised in the section above, national governments in Europe have developed different types of regional policy. They share common characteristics, most notably a political recognition that the geographical differences in social and economic development across a national territory are due to market or government failures requiring outside intervention. The forms of intervention are, however, very different with respect to the objectives, strategies, priorities, governance and instruments used. Also, they evolve over time in response to factors such as changing economic circumstances, new governments and policy programmes, or outside pressures such as the EU Cohesion policy and EU Competition policy frameworks.

This chapter provides an overview of the different types of regional policy across the EU (and in Switzerland and Norway). It starts with a brief overview of the objectives of regional policies. It then presents a typology of countries, with categories based on their territorial challenges, the political commitment to territorial development, and national approaches to regional policy.

3.2.1. The objectives of regional policy

The objectives of regional policy are commonly discussed in terms of whether their primary orientation is to promote 'efficiency' or 'equity' although the definition of these terms varies greatly. An efficiency goal in regional policy is commonly interpreted as maximising the contribution of regions to national growth, whereas an equity goal frequently means reducing socio-economic differences between regions. In practice, the differences are not so clear cut: a strategy to reduce disparities by exploiting underutilised potential in lagging regions, or improving productivity, is likely to improve overall national efficiency. Thus, the regional

policies of many countries involve a mix of efficiency and equity objectives, with different policy elements or interventions serving different objectives.

This becomes clear from the broad categorisation of regional policy strategies and instruments in Table 1 which shows that sometimes the same countries have interventions that are wholly geared towards efficiency objectives (promoting business investment in all regions) or equity objectives (support for job creation or quality of life in weaker regions) as well as some interventions that fulfil both objectives.

Table 1. Efficiency versus equity objectives in regional policies

Efficiency: business investment in all regions	Mainly efficiency but higher funding in weaker regions	Efficiency & equity – business investment in weaker regions	Equity – job creation or quality of life in weaker regions
Regional government economic development strategies in all regions: AT, CH, DE, ES, IT, UK	EU Cohesion policy as a whole – additional domestic bias towards weaker regions in e.g. DK, DE, FI	Grants for business investment/ innovation in weaker regions: AT, BE, DK, DE, GR, ES, FI, FR, IE, IT, PT, SE, UK	Transport aid in weaker regions: GR, FI, NO, SE, UK Grants for job creation in weaker regions: DE, IT, SE
State-region contracts for economic development in all regions: FR	Economic development strategies in all regions but with higher funding for weaker areas: DK	Tax relief for business investment/ innovation in weaker regions: CH, DE, FR, IT	Tax relief for job creation in weaker regions: FR, IT, UK
Economic development programmes in all regions: CH, FI, SE		Funding for business context/infrastructure in weaker regions: DE, ES, FR, IT, PT	Tax relief for all firms in weaker regions: FR, NO Funding for local services/quality of life in weaker regions: GR, NO
Business-led strategies in any region: UK			Fiscal equalisation mechanisms: All countries
Clusters: FI, NL, NO, SE			

The objectives of regional policy and the level in the legislative hierarchy at which they are set vary considerably. In **Germany, Italy** and **Spain**, for example, there is a constitutional commitment to equitable regional development. More commonly policy objectives are set out in broad policy documents, such as the KSSR in **Poland** which runs to 2020 or the White Paper in **Norway**, which generally has a four-year term. However, in some countries (**Belgium, United Kingdom**) there is no overarching strategy for regional

development policy at the national level because policy responsibility is devolved to the subnational level.

The last decade or more has seen a fundamental shift in regional policy objectives across a number of countries. The main thrust has been a move away from an emphasis on spatially-targeted measures – especially business aid schemes for general investment in designated problem areas – towards all-region policies aimed at increasing regional and national competitiveness and often with a particular focus on innovation. In consequence, in many countries, regional development policies are characterised by dual objectives. However, this trend has not been universal: some countries retain a strong ‘problem region’ focus to policy – notably **Germany, Spain and Italy**, while in others an all-region approach has long tended to dominate – as in **Ireland and Austria**. For many there is an inherent tension in the pursuit of dual objectives; this is perhaps especially so in many of the **EU12** (i.e. Central and Eastern European countries which joined the EU in 2004 and 2007 respectively) where not only are internal disparities often wide and growing, but there is also significant disparity between national economic performance and the EU average.

Also important, however, is the extent to which high level objectives actually feed through into policy instruments. Without going so far as to say that some aspirations to reduce regional disparities or equalise living conditions are no more than rhetoric, it is evident that in a number of countries such aims are not really translated into practical policy instruments either due to lack of political will or owing to budgetary pressures resulting from the economic climate.

3.2.2. Categorising regional policies in Europe

Turning to the typology of countries, which is based on several characteristics of countries and policies: territorial challenges, such as nature and scale of regional disparities, and specific problems; the political commitment to territorial development; and national approaches to regional policy, with respect to the objectives, instruments and scale of spending. The five categories are listed in Table 2.

Any typology such as this is open to debate. On the one hand, it is arguable, with some justification, that it involves over-simplification, neglects important context and loses sight of necessary detail. The allocation of countries to one or other category may be contentious. On the other hand, it provides a comprehensive overview – even at a general level – of how regional policies vary across Europe.

Table 2. Typology of national regional policies in Europe

Prominent regional disparities – regional development policy	Finland, Germany, Italy, Norway, Spain, Sweden
Diverse territorial challenges – regional competitiveness policy	Belgium, France, United Kingdom
Limited regional disparities – national competitiveness policy	Austria, Denmark, Luxembourg, Netherlands, Switzerland
Diverse geographical issues – national development policy	Cyprus, Greece, Ireland, Malta, Portugal, Slovenia
Widening regional disparities – national growth/development policy	Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia

3.2.3. Prominent regional disparities – regional development policy

The first category comprises countries – **Finland, Germany, Italy, Norway, Spain, Sweden** (see Figure 1) – where there is a national legal or constitutional commitment to reducing regional disparities. They are geographically large countries where prominent regional differences are accepted as the principal focus for spatially differentiated policies, and where there are well-funded domestic regional policy instruments

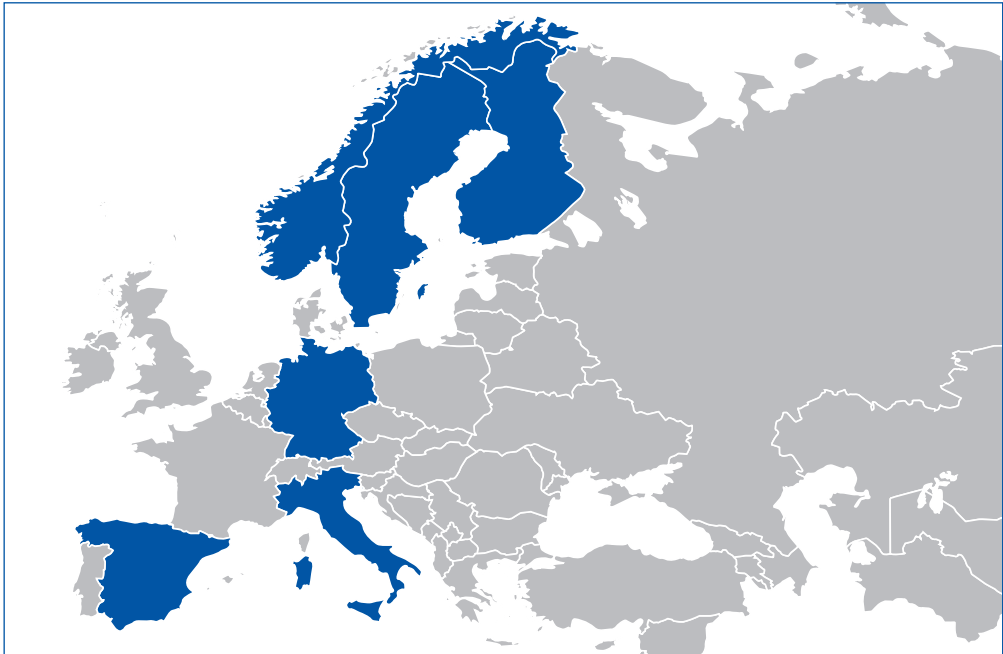
The three Nordic countries – **Finland, Norway, Sweden** – fall into this category. In all three countries, regional policy covers the whole country but has a historically strong political commitment and policy focus on the regions in the far north of Norway, northern Sweden, and eastern and northern Finland, which are peripheral, sparsely populated, and have structural economic weaknesses. At the same time, regional policy has moved over time to focus on other regions also, either because these are areas undergoing structural change (such as industrial areas undergoing restructuring) or because there is a policy objective of stimulating the potential of every region.

This combined objective is evident in the references to ‘district and regional policy’ in Norway, the district component referring to the focus on the disadvantages of the peripheral and sparsely populated areas, and the regional element on the promotion of economic development in all regions. The importance of regional policy contributing to national and regional competitiveness is also evident in the term ‘regional growth policy’ used in Sweden and the fact that regional policy in Finland is increasingly becoming a regional innovation policy.

Regional policy in **Germany** also has a primary focus on reducing prominent territorial disparities, in this case narrowing the structural differences between the old and new

Länder (states) in western and eastern Germany. Although labour market differences have narrowed since unification, the new *Länder* continue to have lower productivity levels reflecting differences in sectoral structure, firm size, business R&D and export propensity. Demographic change is a concern too. German regional policy also focuses on structural economic weaknesses in specific areas of the old *Länder*, within a framework of regional policy intervention – involving a joint task between the federal and State governments to improve regional economic structure (*Gemeinschaftsaufgabe Verbesserung der regionalen Wirtschaftsstruktur*) – which serves the constitutional goal of achieving ‘equivalent living conditions’ (*gleichwertige Lebensverhältnisse*).

Figure 1. Countries with prominent regional disparities and regional development policies



Italy is characterised by a structural socio-economic divide between the Centre-North and the South (*Mezzogiorno*), the southern regions significantly underperforming the Centre-north on a wide range of indicators, and the gap has widened in the 2000s on indicators such as GDP per head. Italy has a constitutional commitment to the allocation of State resources to promote regional economic development and remove socio-economic imbalances. Despite the decentralisation of government economic development tasks to the regional level, particularly since the 1990s, the central State has a clear role in the strategic direction, funding and oversight of regional policy. Although some elements of

regional policy cover all regions in Italy, priority is given to the eight southern regions, which are also the focus of substantial EU Cohesion policy funding.

Lastly, regional policy in **Spain** has evolved to meet a constitutional commitment 'to promote conditions favourable to a more equitable distribution of income and 'oversee the establishment of a fair and adequate level of economic equilibrium between the different parts of the country'. Traditionally, there has been a perceived north-south divide in Spain's regional development (based on the Ebro river axis), although in recent years disparities are less significant between NUTS 2 regions than between metropolitan and urban areas on the one hand and rural, sparsely populated areas on the other. While domestic regional policy has three policy instruments managed by the central government, the more significant instruments in terms of funding are provided through EU Cohesion policy and are delivered by a combination of national and regional programmes.

3.2.4. Diverse territorial challenges – regional competitiveness policy

The second category consists of countries – **Belgium, France, United Kingdom** (see Figure 2) – with diverse territorial challenges (old industrial undergoing restructuring, rural development, urban regeneration, peripherality). These are relative prosperous countries, but some regions are significantly below the EU average. However, there is limited prominence given to regional disparities on the scale of countries like Germany or Italy, although there are some targeted measures for problem regions. The main focus is on regional or sub-regional (local) competitiveness from the perspective of enhancing national growth (except for Belgium), and a range of relatively small-scale programmes and instruments, partly implemented by regional self-governments.

France typifies this category. Interregional socio-economic disparities in mainland France are limited, although significant structural weaknesses remain in the overseas regions and, to a lesser extent, Corsica. There are also concerns over the difficulties facing old-industrial areas and mountainous rural areas, for example. The economic crisis has exacerbated the disadvantaged position (demographic dynamics, ageing, education levels) of the regions of north-eastern France. In response, regional policy has a combination of goals, on the one hand supporting lagging areas with a variety of small-scale measure targeted at assisted areas and rural areas and, on the other hand, enhancing the attractiveness and competitiveness of all regions. The diverse aims are evident in the mandate of the national development agency, DATAR, which include: strengthening economic attractiveness, cohesion and competitiveness of territories; supporting economic change; improving accessibility; and promoting sustainable, balanced, coherent development of rural and urban territories. Thus, regional policy is a cross-cutting policy which encompasses a large number of instruments for different types of territory.

Figure 2. Countries with diverse territorial challenges - regional (and sub-regional) competitiveness policies



The map of territorial challenges in **Belgium** is also complex. There are considerable disparities in economic development between the two main constitutive regions, Flanders and Wallonia, and also major sub-regional disparities. In line with Belgium's federal structure, regional policy is largely regionalised and there are no overarching national policy objectives to enhance regional economic cohesion apart from a 'national solidarity mechanism'. Across the two regions, the common objectives of regional development policies are to create and safeguard jobs and to reduce the locational disadvantages of structurally weaker areas; the two main strategies (Pact 2020 in Flanders, and Marshall Plan 2.Green in Wallonia) have a range of objectives and territorial initiatives.

Lastly, the **United Kingdom** presents a complicated regional policy picture too. There are persistent regional disparities in the United Kingdom in terms of GDP per capita, labour market and household disposable income indicators, with a significantly stronger economic performance in the south-east than in other regions. Disparities have widened during the crisis, and the level of GVA per head has declined since 2000 in all parts of the United Kingdom except London, South-East England and Scotland, with manufacturing regions being particularly severely affected. Regional policy is a devolved responsibility, so it is administered separately in the four constituent parts of the United Kingdom

(England, Northern Ireland, Scotland and Wales) and is increasingly characterised by the pursuit of economic development policies that do not have a strong spatial focus, but do include a range of often small-scale regional and sub-regional measures. In England, recent policy changes have abolished a former regional policy (based on regional development agencies and regional strategies) to focus on a policy goal of a 'more balanced economy' and reduced public-sector intervention through local, rather than regional, measures to promote growth. The devolved administrations (in Northern Ireland, Scotland and Wales) have their own economic development strategies with regional aid an important policy tool (although less so in Wales where a refocusing of policy has seen a move away from direct grants to business).

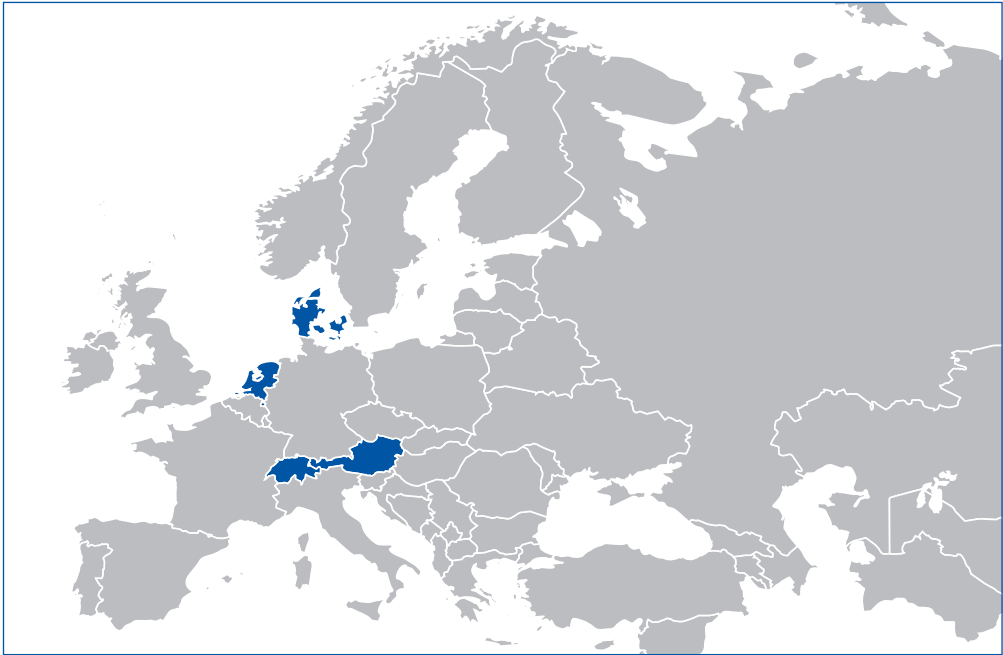
3.2.5. Limited regional disparities – national competitiveness policy

The third category comprises small, prosperous European countries – **Austria, Denmark, Luxembourg, Netherlands, Switzerland** – with limited regional disparities (see Figure 3). Priority is given to enhancing national competitiveness, there is a strong emphasis on social cohesion and the focus of much support is on the business environment. However, there is a policy focus on localised problems and balanced development is considered important.

Thus, in **Austria**, there are no major national regional policy instruments, but there is some support for business in areas with structural problems. The country has a strong fiscal equalisation system, which in practice has a levelling effect across regions. The limited character of traditional regional policy instruments is partly due to the comparatively small scale of interregional economic disparities, although old industrial regions continue to find it difficult to restructure and many rural peripheries along the borders with the former Eastern Bloc are still lagging behind. The lower importance of regional policy at national level is related to the country's federal structure; regional economic development is largely the responsibility of the *Länder*, which have their own strategies and instruments to support innovation and SMEs. However, there are some federal instruments and the national level has an important coordination function.

Similarly, inter-regional disparities in **Denmark** are limited, in particular in terms of employment and unemployment rates, although some localities relatively distant from the two metropolitan growth areas of Copenhagen and East Jutland still lag behind in terms of socio-economic development. Regional development policies have therefore aimed, first, to mobilise regional economic potential through place-specific initiatives and, second, to address the situation of lagging peripheral localities within each of the five regions. Regional policies, in terms of national and Structural Funds programmes, cover the entire country, but higher levels of support can be used in State aid designated areas, and political consensus exists with regard to concentrating a relatively large share of Structural Funds expenditure in designated peripheral areas.

Figure 3. Countries with limited regional disparities – national competitiveness policies



The **Netherlands** also has relatively small regional disparities in GDP, growth, economic activity and unemployment. Economically, the western provinces (South Holland, North Holland and Utrecht) have consistently displayed the strongest performance, while the development of the northern provinces (Groningen, Drenthe, Friesland, Overijssel and Flevoland) has been weaker according to some indicators. Until recently, spatial economic policy was focused on: promoting economic priorities in all regions; more selective place-based policy interventions targeted at regional strengths of national interest; and geographic, programme-based policymaking. Following a change in policy, the regional instruments have been largely abolished, and funding has been reallocated to a new enterprise policy (focusing on the competitiveness of selected areas of industrial or commercial strength, termed ‘top sectors’), and spatial economic responsibilities have been decentralised to provincial and local governments.

As in the other countries in this category, **Switzerland** does not display major regional disparities, with Swiss regions performing well across a number of indicators. However, there are concerns over concentration trends in terms of population, employment and wealth creation. The balanced development of the country has therefore been a historically important goal. Compared to previous policies focusing on regional aid and infrastructure investment, a New Regional Policy introduced in 2008 puts an enhanced focus

on regional competitiveness and value creation. This involves greater attention in terms of support for the business environment, investment in institutional capacity, network building, planning instruments, and regional strategies. As a corollary, the New Financial Equalisation (NFA) is intended to pursue the balancing objective, particularly regarding support for basic infrastructure.

Lastly, although **Luxembourg** is a small, rich country, there are some territorial disparities, with income levels lower in rural areas in particular. The goals of 'regional' policy are mainly to foster business and economic growth through an aspatial, thematic approach, especially linked to R&D and innovation, and to reduce the locational disadvantages of structurally weaker rural areas, in order to contribute to the mitigation of territorial disparities, job creation, and to strengthen economic and business growth. Regional policy emphasises economic diversification, competitiveness and the removal of constraints on economic growth, particularly favouring R&D.

3.2.6. Diverse geographical issues – national development policy

The fourth category comprising **Cyprus, Greece, Ireland, Malta, Portugal** and **Slovenia** (see Figure 4) covers countries with important geographical issues in an EU context (peripherality, insularity) or internally (islands, mountain areas, isolated regions, capital city dominance). These are smaller countries, mainly just under the EU average of GDP per head. The focus of economic development policy is on national development and competitiveness, although some internal disparities may be significant and getting increased policy attention.

Greece exemplifies this group of countries. Economic policy priorities are mainly concerned with national growth and development, especially in the context of the crisis. However, there are deep and persistent regional inequalities in Greece, with polarisation between the Attica (Athens) region and all other regions. Those regions located distant from the Athens-Thessaloniki axis are lagging behind and in danger of remaining structurally disadvantaged measured not just in terms of regional GDP but also employment, R&D, demographic change, urban development and some social service provision. Thus, some policy attention has been accorded to balanced economic growth and the development of the less-developed regions. Regional policy is largely synonymous with EU Cohesion policy; it is programme-based and has both thematic and regional components. The main national regional policy instrument is the Development Law, which aims at promoting economic development and regional convergence through private investment incentives.

Regional policy is also weak in **Ireland**, which has operated a national economic development policy that seeks to be inclusive of all regions. As the country became one of the wealthier EU Member States in 1990s and early 2000s, all regions saw rising prosperity

during the growth years, although economic growth was stronger in the Dublin region than in other regions, particularly in the North and West. The crisis has seen significant declines in output and employment across all regions, with the previously middle-ranking South East region being particularly badly hit. Nationally, it is recognised that balanced growth across the country depends on investment in regional cities or gateways to make them as attractive as the Dublin region for foreign direct investment and entrepreneurship. A National Development Plan (NDP) is in place to foster such development, but this has been hit by continuing cuts in public expenditure. The main regional dimension to policy is driven by the varied availability and ceilings of State aid under the EU regional aid map, as well as differential levels of Cohesion policy funding across regions. Regional policies have thus been put in place in response to EU frameworks rather than due to domestic government decisions within Ireland.

Figure 4. Countries with diverse geographical issues – national development policy



In **Portugal**, traditional characterisations of the regional problem have emphasised the duality between a dynamic urban coast, on the one hand, and a declining rural interior with high out-migration on the other. In recent decades, new dynamics of activity have emerged based on major axes connecting growth areas with Spain, the interior has been developed and infrastructure asymmetries have been reduced across the country. However, the two development poles of Greater Lisbon and Greater Oporto continue to be

the main drivers of overall national growth, and many areas suffer from depopulation trends and a lack of sustainable growth and job-creation Policymaker attention being historically focused on improving national development competitiveness in a European context; while all regions have been eligible for financial support, the capital city Lisbon has often been seen as the main engine of national development. Regional policy in Portugal is synonymous with EU Cohesion policy, which co-finances the main regional aid schemes and a wide range of other policy initiatives with sectoral and territorial objectives.

Regional development in **Slovenia** can be characterised in terms of a west-east divide. Socio-economic indicators are considerably worse in the eastern part of the country than in the western part that includes the capital city, Ljubljana, in the Central Slovenian region. The differences in GDP per capita among Slovene regions are high and increasing. Slovenia has a long tradition of regional policy (since 1971). Although national development is a priority, there is a tradition of regional policy dating back to the early 1970s, with an equity goal of supporting less-developed areas. Since 1999, regional structural policies have covered the whole country, but with a continued special focus on areas with particular development problems. Most domestic regional policy is tied in closely with EU Cohesion policy, which includes programme support to strengthen regional development potential. In addition, there is particular concern for border problem areas, Roma settlements and particular areas (including the regions of Posočje, Pomurje and Pokolpje).

The small size of both Cyprus and Malta means that the scope for regional policy is limited, although in both countries there are territorial policy initiatives. In **Cyprus**, economic development is seen as unbalanced, favouring the urban centres and coastal areas at the expense of the rest of the island. Rural areas have suffered from economic outmigration and population ageing. The division of island has also been problematic; areas along the Green Line (the UN buffer zone) are underdeveloped and there are emerging concerns at the environmental impact of tourism in coastal areas. The promotion of balanced regional and rural development is one of the axes of the Strategic Development Plan 2007-13, which is the main domestic framework for economic development policy. The basic aim is to enhance territorial and social cohesion through integrated urban regeneration; and to increase the attractiveness of rural areas by emphasising the multifunctional character of agriculture and increasing the involvement of local government in development.

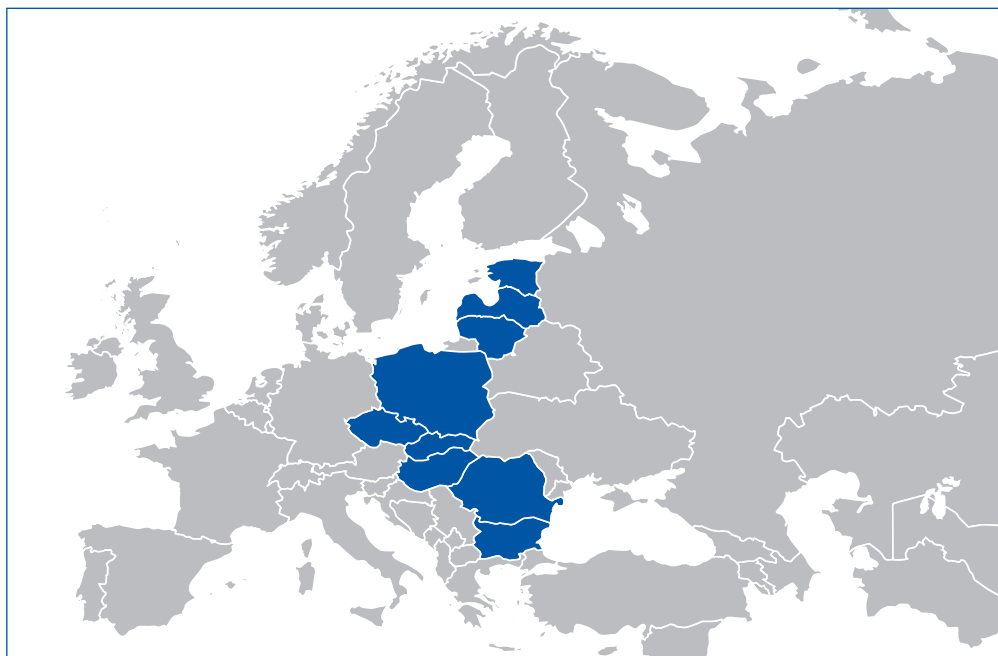
Lastly, in **Malta**, economic development policy focuses on tackling the structural problems of the country as a whole. The exception is a special recognition of the territorial needs of the island-region of Gozo focusing on the island's 'double insularity' problems. There are also regions on the island of Malta that face lower levels of economic and social development, particularly within the Southern Harbour, but these areas do not have specific policies that target structural problems and are only considered as regions for statistical purposes.

3.2.7. Widening regional disparities – national growth/development policy

The final category comprises countries, all in Central and Eastern Europe (**Poland, Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Romania, Slovakia** – see Figure 5) where the focus for two decades has been on national growth and development. These are less prosperous countries, compared to EU averages, and have seen widening territorial disparities, especially between metropolitan areas and other regions. Domestic regional policies have, in the past, been weak, and regional development priorities and funding have been driven by EU Cohesion policy.

However, this category is perhaps the most problematic, given the way in which (in some countries, notably Poland) internal disparities are being accorded a higher political and policy profile, and stronger domestic regional development strategies and programmes are emerging. It is likely that, in future years, one or more countries would fall under another of the categories in this typology.

Figure 5. Countries with widening regional disparities – national growth/development policy



The challenge of regional development has a high political saliency in **Poland** by virtue of the country's size, diversity and degree of regionalisation of economic development.

Robust economic growth has been accompanied by rising regional and sub-regional disparities, especially between the western and eastern regions of the country. These disparities are due to the growing gap between, on the one hand, low-productivity agricultural areas and small/medium-sized towns undergoing industrial restructuring and, on the other hand, fast-growing urban areas developing services and medium-to-high-tech industries. Cohesion policy funding provides the bulk of resources for development policy, including regional policy. This has contributed to a shift in Polish regional policy objectives: priorities related to the problems of structurally weak territories have been superseded by priorities related to the potential of areas with the greatest capacity to spur economic growth (i.e. the largest urban centres). In this context, a National Strategy for Regional Development (KSRR) was adopted in 2010 this setting out Poland's domestic regional development vision, aligned with but distinct from EU Cohesion policy.

In the **Czech Republic**, regional disparities have been relatively moderate apart from the considerable dominance of the capital city, Prague. However, structural problems persist in some regions, and there has been trend towards deeper differentiation at micro-regional and local levels. Explicit national regional policy (outside Cohesion policy and EU regional State aid policy) is negligible. Traditional national regional policy programmes were reduced or phased out, and most regional policy financial sources have been reallocated towards co-financing EU Cohesion policy. A strong regional dimension is evident within the State labour market policy and in the nationwide State programme for the attraction of large (often foreign) investors through regional differentiation of incentives. The overall strategic aim of regional policy accentuates both equity-related (in particular, national or domestic regional policy) and efficiency-oriented (due to EU Cohesion policy) objectives. Resources have been targeted at the most underdeveloped regions suffering from high unemployment and/or poor economic performance as well as territories of special State interest.

Since the early 1990s, **Hungary** has experienced growing interregional economic disparities, particularly between the Central Hungary region (Budapest and Pest County) and the other six regions, and also between western and eastern regions more generally, as well as urban and rural peripheral areas. The crisis has exacerbated the economic difficulties of the structurally weakest regions, where unemployment and poverty have increased. The 2011-12 period saw on-going tension between the two core developmental goals of Hungary, namely national economic convergence towards EU levels of GDP per capita and the reduction of interregional socio-economic disparities. Regional policy in Hungary is almost entirely co-financed by EU Cohesion policy (and EU rural development policy), which focuses over 90 percent of funds on the six Convergence³ regions (and the remainder on the Central Hungary region). Most aid schemes award funding throughout the

3. The convergence objective covers Europe's poorest regions whose per capita gross domestic product (GDP) is less than 75 percent of the EU average.

country, although with aid rates varying between regions. In the past, some funding was targeted at the structurally weakest micro-regions, but this funding ended in 2009.

Capital city dominance is also an issue in **Slovakia**, where the Bratislava region has traditionally been ahead of other regions in terms of social and economic development. Over the past decade, regions located in the western part of the country have constantly registered higher economic performance than eastern regions and currently, Slovakia has one of the highest regional dispersions of GDP per capita in the EU. Slovakia formulated its own regional policy for the first time in the 2010 National Strategy for Regional Development, emphasising convergence as well as the goals of growth and regional competitiveness. Again, the main regional policy instruments are Cohesion policy programmes and investment aid, with the intensity of regional policy favouring structurally weaker regions.

As with smaller countries elsewhere in the EU, the scope for regional policy in **Estonia, Latvia** and **Lithuania** is more limited than in larger countries. While regional development strategies and instruments exist, they are secondary to the goal of national convergence within the EU. **Estonia** has significant regional disparities, notably between the capital Tallinn and other regions. Harju County (around Tallinn) and the second biggest city Tartu are reasonably well developed, but most of Estonia could be considered as peripheral, with disparities in terms of living standards, settlement size, internal migration, GDP and (un)employment rates. Estonia's Regional Development Strategy for 2005-2015 has the objective of achieving sustainable development in all regions. Subordinate goals are to meet the basic needs of people in all areas, to achieve lasting competitiveness in all regions, and to enhance ties between Estonian regions and cross-border regions as well as with the rest of Europe. In addition, the strategy focuses on developing strong regional centres with their hinterlands.

In **Latvia**, there is also a conflict between regional convergence and national growth objectives, especially under conditions of recovery from the economic crisis. National economic growth is driven by activity in a small number of cities, notably the capital city region, and other areas are much weaker in economic terms. The amount of national and EU support for weaker regions remains relatively small. Cohesion policy programmes funded by the EU are the primary source of funding for regional development of Latvia. There are also some national support measures in the form of small earmarked grants for local governments, as well as targeted support (tax relief) for businesses in designated problem regions.

As in the other two Baltic countries, economic development in **Lithuania** faces the twin challenges of increasing national growth and reducing internal disparities. National economic growth is largely driven by business activities in the main cities of Vilnius, Kaunas and Klaipeda, where per capita income and employment levels are considerably higher than in more peripheral NUTS 3 areas. Regional policy involves a combined EU Cohesion policy and national (State) regional policy. According to the Law on the Regional

Development, the main goal is the reduction of social and economic disparities among and within the regions, and the promotion of the balanced and sustainable development of the entire territory of the State. Social and territorial cohesion is measured in terms of indicators such as income per capita and unemployment rates in the territories.

Bulgaria also has the dual task of achieving national economic convergence towards EU averages and a reduction in internal regional disparities. National GDP per capita was only 45 percent of the EU27 average in 2011, while interregional disparities are pronounced. Structural problems are evident in all regions of Bulgaria, although less so in the South West Region, particularly in the capital Sofia, which along with other western areas has seen stronger average growth for almost two decades. Regional policy is based on the regional plans promoting growth and competitiveness, improving the quality of life, and reducing significant intra-regional disparities in economic and social development. The relatively low level of national economic development means that all regions are eligible for support under Cohesion policy and the EU regional aid map. Interventions prioritise both regions that can contribute to growth most quickly and as well as problem regions with the highest unemployment rates.

Finally, along with the convergence challenge, **Romania** is another country characterised by significant interregional disparities. Alongside the structural divide between the capital city region of Bucharest-Ilfov and the other NUTS 2 regions, there are clear developmental imbalances between eastern and western regions. Critical issues, particularly in the least developed regions in the north-east and south, include the economic decline of small and medium-sized towns, the severe negative impact of economic restructuring on mono-industrial areas, and major urban–rural gaps. All regions are covered by EU Cohesion policy. Although there is no specific programme or strategies for problem regions, there is a nationwide regional development programme which has the objective of achieving ‘sustainable, territorially balanced economic and social regional development, concentrated on urban growth poles support, infrastructure and business environment improvement, so as to make the Romanian regions attractive for investors and inhabitants’. The programme incorporates a differentiated approach depending on the problems identified at regional level and the less-developed regions benefit from higher allocations.

3.3. Spatial focus and approaches to area designation

The traditional focus of regional policies has been on designated areas that are eligible for regional aid. These areas have generally been narrowly defined (in the form of assisted area maps, which are subject to approval by the Directorate General for Competition of the European Commission), involving varying combinations of economic, social, territorial or other indicators for designation purposes and using small areas (labour market areas, travel-to-work

areas, etc.) as the building blocks for designation. Virtually every European country still retains at least one major regional aid scheme that can be used to support investment and employment by enterprises, within EU State aid rules in terms of aid ceilings and assisted areas⁴.

Box 1. Approaches to area designation

Member States adopt diverse area designation strategies to reconcile Commission constraints with domestic considerations. These considerations comprise a mix of policy options such as indigenous or inward investment, areas of need or opportunity – and political issues, such as the perceived equitable distribution of assisted areas between regions and the sensitivity of de-designating some areas, while according assisted area status to others for the first time. Example from Germany is provided below:

In **Germany**, the philosophy underpinning the map is based on national perceptions of economic disadvantage, but with some political adjustments a) to ensure that agreement can be reached among all *Länder* and the federal level and b) to maintain ‘buy-in’ to the GRW from as many *Länder* as possible (notably the western *Länder*). The GRW Sub-Committee agreed the following principles for the regional aid map and process in 2014-20:

- The goal of the GRW is to strengthen growth in structurally weak areas, to create permanent competitive jobs and to support regions undergoing structural change.
- The GRW system benefits from ensuring that as wide as possible a number of *Länder* have designated areas.
- Area designation is on the basis of objective, consistent and economic criteria.
- GRW funding should be focused on structurally weak areas.
- Area designation should be transparent and comprehensible.

The map is based on 258 domestic ‘labour market areas’ (*Arbeitsmarktregionen*). In many cases, these areas are identical to NUTS 3 regions; there are also, however, numerous exceptions, particularly in urban areas (because the labour market areas are akin to travel-to-work-areas). Reflecting the principles outlined above, all German regions are ranked on the basis of a composite indicator, made up of four sub-indicators, the first two of which are significantly more important in terms of weighting, namely:

- the annual average unemployment rate in 2009-12 (45 percent weighting),
- the annual gross wage per employee paying social insurance in 2010 (40 percent weighting)
- the employment forecast for 2011-18 (7.5 percent weighting),
- an infrastructure indicator at 30 September 2012 (7.5 percent weighting).

In essence, areas are included in the map in order of the ranking until the population quota is exhausted, but further adjustments are made to deal with specific issues. Moreover, in addition to designating areas covered by the EU regional aid map, the same methods and ranking are used for designating domestic ‘D’ areas which are eligible for specific funding for SME aid.

4. Within the assisted areas maps, Member States (or regions, local authorities...) can also target areas for other things (e.g. urban / rural development, addressing unemployment black-spots etc.) but they are constrained by the guidelines for regional State aid in terms of what they can offer. Outside the assisted areas map for regional aid they can support SMEs, R&D investment, training etc. but they cannot support general investment by large firms.

Over the past decade, regional policies in several countries have adopted a broader spatial perspective. Regional policies increasingly seek to mobilise and develop specific resources in all regions, whereby every region is expected to maximise opportunities for growth and competitiveness in order to increase national efficiency. The all-region approach is, however, not universal, and several countries still have a strong, regionally-selective approach to regional policy intervention. Even within the framework of all-regions regional policies, selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. In some cases, this regional selectivity has been intensified by the economic crisis.

A number of countries are also looking at new ways to define and designate regions and target support, involving a wider range of policy interventions at different spatial scales. Territories and spaces such as macro-regions, regional corridors, city-regions, localities and 'functional areas' are becoming the subject of integrated regional development interventions, as opposed to single schemes applied to areas within fixed administrative boundaries. Targeting support on urban centres as growth poles to promote regional development and balanced development has already been used for some time; there is now also some evidence of a more 'localised' policy approach to spatial targeting in a few countries.

Looking to the future, efforts to agree functional areas and apply more 'place-based approaches to spatial targeting will rely on gaining local-level support for the areas agreed, transferring the ideas set out on paper into practice, securing the required resources, and coordinating the potentially wide range of organisations and actors involved, all of which can be challenging. Meanwhile, shifting regional development priorities and the emergence of new regional policy themes and priorities, such as energy and demographic change, will continue to impact on spatial targeting.

3.4. National strategies and plans

3.4.1. Emerging national strategies

In many Central and Eastern European countries, regional policy has been synonymous with EU Cohesion policy. Structural and Cohesion Funds have been a guarantor of spending on regional development priorities since their accession to the EU. However, it is only over the past 2-3 years that domestic regional development strategies have started to emerge, notably in **Poland, Slovenia, Slovakia, Bulgaria** and **Romania**. These policy documents are asserting, sometimes for the first time, a national perspective on regional development that will inform the drafting of Partnership Agreements and Operational Programmes for the funding under Cohesion policy in 2014-20.

Both **Poland** and **Slovakia** developed national regional development strategies in 2010, and these are now being implemented. Under the Polish National Strategy for Regional Development 2010-2020 (KSRR), an Action Plan was adopted in November 2011 with the aim of addressing three core issues through associated working groups: improving the quality of the public administration, particularly the territorial dimension; rationalising the system of public finances for development policy that has a territorial dimension; and preparing a system for the realisation of regional policy and mechanisms to increase its effectiveness.

Progress has been slower in **Slovakia**. The 2010 National Strategy for Regional Development made a first attempt to define the objectives of domestic regional policy, promoting an integrated approach to the development of regions based on use of endogenous potential. However, implementation has yet to get seriously under way due to financial constraints on the resources needed for relevant interventions, as well as the weak coordination capacity of the Ministry of Transport, Construction and Regional Development.

Bulgaria also now has a new National Strategy for Regional Development for the 2012-2022 period, which was elaborated at the end of 2011, and Regional Development Plans and District Development Strategies for the 2014-2020 period are being prepared. The Strategy's objectives cover the major aspects of cohesion – economic, social, and territorial – at three levels (international, national, regional). Policy directions for the regional development planning documents have been formulated on the basis of the National Development Programme 'Bulgaria 2020', the EU Strategy 'Europe 2020', the expected priorities of EU Cohesion policy for 2014-2020, and regional development analyses.

A more targeted national framework is the new National Plan for Infrastructure Development (*Planul National de Dezvoltarea Infrastructurii*, PNDI) in **Romania**, which was formally set up in 2010 to support regional development and launched over the 2011-12 period. The PNDI is a public investment programme which mainly funds the upgrading of county roads, water and sewerage systems, as well as village modernisation. It gives priority to projects on the waiting list of the Cohesion policy co-funded Regional Operational Programme. **Cyprus** also saw the launch in 2011 of a relevant sectoral framework – the Tourism Development Plan; the Plan underpins business aid on the island, with award levels governed by the regional aid map.

Among EU12 countries with frameworks in the pipeline are the **Czech Republic** and **Hungary**. Preparations for a new Czech Regional Development Strategy for the post-2014 period (RDS 2014+) started in early 2011. The new RDS 2014+ is expected to reflect changes in the currently prevailing regional policy paradigm, including various shifts: from the designation of territorially-administrative regional units towards the designation of functional regions; from supporting only 'underdeveloped and problem' regions towards

providing support for all regions; and towards regional competitiveness concepts and sustainable development.

In **Hungary**, a new National Development Policy Concept – which governs all domestic and EU interventions related to regional development – and a new National Spatial Development Concept are planned for 2013. The aim of the current Concept is to ensure that regional development issues are taken into account in the elaboration of departmental policies and national and regional programmes in order to promote a ‘balanced level of regional development’ by 2020. It has five overall objectives: (i) regional competitiveness; (ii) territorial convergence; (iii) sustainable territorial development and protection of heritage; (iv) spatial integration into Europe; and (v) decentralisation and regionalism. However, the concept *per se* does not have dedicated financial resources, and the pursuit of its policy objectives are instead being realised mainly through EU funding in the course of the implementation of the New Hungary Development Plan (NSRF) and the New Széchenyi Plan of 2011.

3.4.2. Long-term spatial plans

Outside the EU12, national frameworks for regional development have not seen the same extent of change, although policy reviews indicate possible substantial changes in coming years, notably in France and Switzerland. A new regional strategic agenda has also been set out in the Netherlands.

In **France**, preparation of the next generation of State-region project contracts (*Contrats de projets Etat-région, CPER*) started in February 2012, in parallel with preparations for the 2014-20 Cohesion policy programme period. A key issue is the added value of the CPER, especially given State budget constraints (the CPER budget saw a cut of €1 million in the budget for territorial policy in 2012) and competition for funding from sectoral strategies, initiatives and projects, as well as the perceived need for a more strategic and unified approach for the different instruments.

In the wake of the 2010-11 reforms to regional policy in the **Netherlands**, the Ministry of Economic Affairs, Agriculture and Innovation (*Ministerie van Economische Zaken, Landbouw en Innovatie, MEZLI*) has recently adopted a Regional Spatial Strategic Agenda which aims to link central government priorities to the regional level. Five such priority policy areas are identified. The first aims to relate the initiatives and funding of regional governments to national enterprise policy in support of ‘Top Sectors’. Second, there is support for spatial clusters and a desire to further develop the ‘mainports’, ‘brainports’ and ‘greenports’ strategies with the regions. Third, the MEZLI aims to link regional, national and EU policy through the regional and cross-border Structural Funds programmes and to integrate these with the Horizon 2020 and Top Sector approach. Fourth, there is a strong focus on

reciprocal re-enforcement of ecological and economic issues. Fifth, MEZLI aims to establish close links with the Ministry for Infrastructure and Environment (MI&M) in order to enhance the spatial dimensions of the national spatial, mobility, water and environmental policies for which MI&M is responsible. In addition, the MEZLI has formulated two internal strategic priorities. One is to create a team of 'regional ambassadors' to liaise with each of the regions on enterprise policy, and this is being supported by a programme of strategic meetings between the MEZLI, provinces and municipalities to discuss national-regional coordination on economic development issues. Additionally, a key task of the regional ambassadors is to improve links between political/ administrative actors and business leaders in each region (focusing on the top 20 companies). A second internal priority of the MEZLI strategy on regional and spatial issues concerns regional crisis management.

In **Switzerland**, the State Secretariat for Economic Affairs (SECO) started an analysis of the first four years of implementation of its New Regional Policy (*Neue Regionalpolitik*, NRP), as noted above. This is one of a number of inputs that will feed into preparations for the 2016-2023 multi-annual regional policy programme. NRP 2016+ is a strategic project that was launched in early 2012 by the SECO with the creation of a canton-federal working group tasked with developing ideas for the future of the NRP and considering amendments to its legal base.

Finally, it is worth noting the further development of conceptual plans, setting out challenges for the long-term and broad spatial development objectives, over periods of ten or 20 years. In some cases, they respond to EU-level debates on territorial cohesion and greater awareness of the spatial dimension of longer term challenges. Key themes running through many of the plans are globalisation, energy security, sustainable development, climate change and demographic change. Creation of such plans has taken place for instance in **Poland** (National Spatial Development Concept), **Latvia** (Sustainable Development Strategy 2030) and **Romania** (Strategic Concept of Territorial Development – 2020).

3.5. Regional policy instruments

3.5.1. Regional aid instruments

All European countries have one or more regional aid scheme, governed in terms of coverage and aid intensity by EU State aid rules. They vary in the type of aid offered – most are in the form of grants but they also include low-interest loans, different forms of tax relief, depreciation allowances, loan guarantees and reduced social security contributions. Many are available to all sizes of firm, although a significant number focus on new start-ups, micro-firms and small and medium-sized enterprises. Depending on spatial coverage and differentials in award rates, the instruments are more or less focused on problem regions, although in the EU12 Member States, discrimination between regions is limited,

since all or most regions are covered by Article 107(3)(a)⁵ or (c)⁶. Policy instruments in these countries also have a strong sectoral orientation, and lagging regions have been mainly supported through welfare policies, although this is now changing and there are increasing examples of structural regional policy being channelled to areas most in need.

The long-term trend has been for a more restrictive use of regional aid, influenced significantly by EU Competition policy control of State aid. Award ceilings and spatial coverage have been reduced considerably in the more developed parts of the EU over the past two decades. More recently, there have been five main trends, two of them directly associated with the economic crisis.

- First, the economic crisis has seen a resurgence in the use of State aid, even if only temporarily, to support business survival and the retention of employment. The European Commission put in place a Temporary Framework for State aid measures from 2008 to 2010; Member States made extensive use of the different options, aiming to unblock bank lending and to facilitate aid schemes that encourage continued investment⁷. For instance in Greece, France, Portugal and Spain efforts have been made to encourage the take-up of regional aid instruments to encourage investment.
- Second, regional aid spending has come under pressure as governments seek to reduce budget deficits, which has been notable in countries such as Spain, the United Kingdom and Finland.
- Third, lower aid ceilings were implemented in some regions as a consequence of the European Commission's review of statistical effect regions in 2010. This affected regions in Austria, Germany, Greece, Portugal, Spain and the United Kingdom.
- Fourth, the perennial question of the effectiveness of regional aid instruments has raised its head in France, Germany and Finland.
- Fifth, several countries (Germany, Luxembourg, Norway, Poland, Slovakia, United Kingdom) have been reviewing or initiating changes to the conditions under which regional aid is awarded or its administration.

5. Article 107(3)(a) provides that 'aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment' may be considered compatible with the common market. The 'a' areas for 2007-13 are defined as NUTS 2 regions where GDP(PPS) per head is less than 75 percent of the EU25 average for the period 2000-2.

6. Article 107(3)(c) provides that 'aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest' may be compatible with the common market. Overall 'c' coverage in 2007-13 comprises the following elements: economic development, low population density, a population quota based on internal disparities in GDP per head and unemployment and safety net.

7. See F. Wishlade (2011) *To roll forward or to roll back? Regional Aid Control 2014+*, European Policy Research Paper No.75, European Policies Research Centre, University of Strathclyde, Glasgow, January 2011.

3.5.2. New support for the business environment in problem regions

In parallel with the reduced use of regional aid over the past decades, regional policies have placed increased emphasis on improvements to the business environment⁸. An important driver has been policy thinking focused on addressing supply-side factors such as local or national transport and IT infrastructure, the availability of business sites and premises, the quality and availability of skills, access to business finance, links between SMEs and universities, and the costs of regulation. In some countries there is no explicit spatial differentiation of business environment measures (e.g. **Denmark**), while others operate instruments that are specifically targeted at lagging areas (e.g. **Germany**). In most Central and Eastern European countries, improving the support environment for business has been a focus of both national and EU regional policy interventions, although not always well coordinated.

Over the recent years, several countries have focused on **improving support for different forms of infrastructure in the regions**. The development of localised business support through growth poles, competence centres and enterprise zones has also continued.

- In **Germany**, regional policy support for infrastructure is being widened. Currently, the special programme (*GRW Sonderprogramm*) provides support for local infrastructure projects, workforce training and business consultancy; from early 2011, the GRW funding for broadband infrastructure was extended from the provision of only 'basic services' in areas with no or low coverage (less than two Mb) to include also 'high-performance broadband connections and next-generation networks' in areas where current speeds are less than 25 Mb (upstream and/or downstream).
- Improving regional IT infrastructure is also the aim of a new EU-funded measure launched in **Estonia** to support infrastructure connections in the regions, and in **Bulgaria** where a new grant scheme was started in 2012 to support the construction of broadband connections at the peripheries of cities and in less urbanised and rural areas.
- In **Cyprus**, changes to business environment support have concentrated on more traditional infrastructure connections, notably in the transport sector where a number of initiatives are being undertaken to improve provision in rural and in urban areas, involving regulatory changes and the provision of incentives to public providers.

In recent years, business environment support in many countries has been concentrated on **clusters, growth poles or other defined local areas**.

8. See Table 2 in S. Davies and F. Gross (2012) Regional policy instruments in Europe: comparative tables, *EoRPA Paper 12/3*, European Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow.

- Among newer developments, the 2011 Investment Incentives Law in **Greece** broadened the range of support (grants, leasing subsidy, soft loans) for partnership and networking in the framework of clusters. In **Slovakia**, 'innovation' and 'cohesion' growth poles of growth have been identified in all regions with the aim of positive spread effects across the territory, and in **Ireland** there has been a progressive development of Competence Centres, which provide a framework for firms and research organisations to collaborate and undertake R&D. New EU-funded measures in **Bulgaria** also include support for regional business incubators, technology parks and centres, clusters and technology transfer offices (as well as more generic support for technological modernisation in SMEs, and the commercialisation of innovative products, processes and services).

Focusing more on **fiscal and regulatory support**, the use of Enterprise Zones has re-emerged as a policy tool for the business environment.

- In the **United Kingdom**, this has taken place in selected local areas. For instance, 24 Zones have been designated in **England**, where benefits include a 100 percent discount of local business tax worth up to £275,000 (€340,850) over a five-year period. Moreover, all increases in local business tax revenues within the zone for a period of at least 25 years will be retained by local authorities in the Local Enterprise Partnership area to support their economic priorities. There will also be government and local authority help to develop the planning approaches in the zone and government support to ensure that superfast broadband is rolled out. Subsequently, four Enterprise Areas were launched in **Scotland** in early 2012, located across 14 sites and sectorally focused on the industries viewed as having the greatest potential to boost economic growth: life sciences; general manufacturing; and low carbon/renewables. There is a particularly strong link with key renewables sites identified within Scotland's National Renewables Infrastructure Plan, and a number are located in the sparsely populated Highlands and Islands region. Incentives and actions to stimulate investment include: local business tax discounts worth up to £275,000 (€340,850) per business or enhanced capital allowances; new streamlined planning protocols across all sites; skills and training support; and an international marketing campaign to promote the sites. Lastly, in **Wales**, the Welsh Government has introduced seven Enterprise Zones with £10 million (€12.4 million) funding over five years, again organised along sectoral lines, focusing on: financial and professional services; energy; advanced manufacturing; aerospace; energy and environment; and ICT sectors.
- Support for this kind of initiative has recently been reconfirmed in **Lithuania** where significant funding is allocated to Free Economic Zones. Klaipeda Free Economic Zone and Kaunas Free Economic Zone were established more than ten years ago and are supported under the current 2007-13 Structural Funds programme. During 2012, regional policy funding for such Zones in Siauliai, Marijampole and Akmene was agreed;

the funding includes business aid and support for improving the business environment, specifically infrastructure to prepare land for business use or to set up services for investors.

A common criticism of localised interventions to support the business environment is insufficient concentration and a lack of integrated interventions in the target areas. However, the value of such initiatives in the form of 'competitiveness poles' – one of several cluster initiatives in **France** that also include 'rural excellence poles' – has recently been validated. The French *pôles de compétitivité* aim to promote collaborative innovation and R&D projects; they have received €1.1 billion from the State and €685 million from sub-national authorities since 2005, plus a further €1.1 billion in 2009-11. An evaluation in June 2012 concluded that the poles had been effective and recommended pursuing the approach further in alignment with the new generation of Structural Funds programmes.

Lastly, a business environment measure was discontinued in **Estonia**. No new applications have been accepted since May 2011 under the regional development planning programme, which supported the preparation of investment projects relating to the business environment. The programme funded the preparation of strategies for assessment, specification and implementation of region-specific resources, and the specification of development complexes and planning for investment projects. Activities included future development plans, evaluations of socio-economic profitability, feasibility analyses, investment/action plans, marketing strategies, and environmental impacts analyses.

3.5.3. Regional programmes/strategies for problem regions

Regional policy is, by definition, territorially focused given that interventions are targeted at regions or sub-regions, with varying degrees of selectivity. In addition to regional policy business aid and support for the business context in problem regions or lagging areas, several countries have broader programmes or strategies covering a range of interventions that are targeted at particular regions suffering from difficulties of economic restructuring, underdevelopment, peripheralality or other specific territorial disadvantages (see Table 3).

Table 3. Regional policy support for particular (types of) problem regions

CZ	Some regions focus support on the most lagging areas, mainly located close to administrative borders. The South Moravian region has a strategy to combat adverse geographical and socio-economic conditions in delineated micro-regions lacking job opportunities and suffering from depopulation (e.g. via preferential treatment of applicants from these micro-regions in the context of business support measures).
EE	The programme for the development of <i>Setomaa</i> region aims to ensure the sustained viability of Setomaa, by developing the local business environment and people and by supporting marketing activities in the region. All activities carried out in Setomaa are eligible, as are those outside Setomaa if they contribute to the development of the business environment of Setomaa or the businesses operating in Setomaa.
FR	A multi-annual infrastructure investment programme for <i>Corsica</i> to help the island overcome its handicaps related to its geography and to enhance infrastructure and service provision. Dating back to 2002, it was revised and expanded in 2009-10.
GR	A Special Framework for Spatial Planning of Coastal Zones and Islands has been developed, applying an 'eco-system approach', involving integrated management and inclusive governance.
PT	The Programme for the Economic Enhancement of Endogenous Resources was launched in 2010 to promote competitiveness in low-density areas through integrated development plans based on partnerships of regional and local actors.
MT	A specific strategy is operating (over the 2010-12 period) for the island of Gozo promoting sustainable jobs, a better quality of life, the natural and cultural environment, social care, and the island's identity. Its development needs were reaffirmed in the 2012 Budget Bill.
NO	The ' <i>High North</i> ' region is the focus of a long-term strategy focused on business development, not just through regional policy, but a range of relevant policy fields.
SI	A development programme is run in the <i>Posočje</i> region to help remedy the consequences of earthquake damage. It aims to increase the competitiveness of the economy and improve human resources in order to reduce disparities within the region and ensuring the integrated development of the Upper Soča Valley in particular.

4. Influence of EU cohesion policy

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. However, some general features can be noted, which are discussed in the sections below. These draw largely on the results of a study carried out by EPRC and Euroreg in 2010⁹.

4.1. Influence of strategic objectives and priorities

The extent of EU influence over the objectives of policy is variable. The relative importance of EU Cohesion policy depends on at least two criteria. One is the level of development of the Member State (essentially whether the GDP per capita is below or above the threshold of 75 percent of average EU GDP per capita) 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. The level of development seems to be a primary factor, although 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 homogenous. 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 had a significant influence on national policies and, in particular, regional

9. EPRC and EUROREG (2010) *The Objective of Economic and Social Cohesion in the Economic Policies of Member States*, Final Report to the European Commission (DG Regio), European Policies Research Centre, Glasgow and EUROREG, Warsaw, November 2010.

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 Lisbonisation¹⁰ 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 a lot of 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

10. 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.

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).

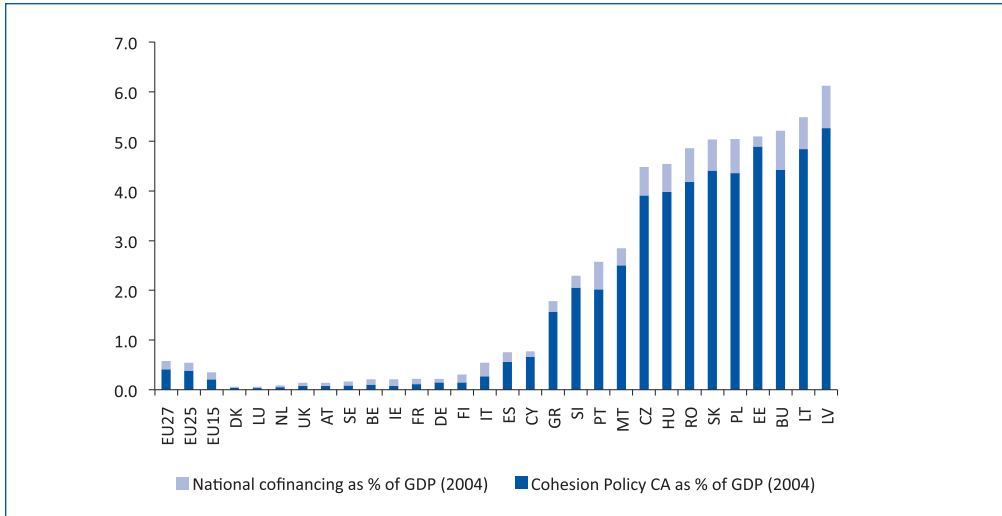
4.2. Influence of financing

EU Cohesion policy is a very significant financial resource in many EU12 countries (Central and Eastern European countries which joined the EU in 2004 and 2007 respectively).

Figure 6 illustrates the wide differences in the scale of Cohesion Policy commitments both in terms of EU and national commitments. For nine of the EU12 countries, annual commitments average around four percent or more of 2004 GDP, while at the other end of the spectrum, in Denmark and Luxembourg, Cohesion policy contributions represent 0.04 percent of GDP or less. Also important in terms of *national* policy however, is the scale of domestic funding that is tied to co-financing EU Cohesion policy. Here five broad groups of countries can be identified, where:

- co-financing exceeds 0.75 percent of GDP (**Latvia** 0.85 percent; **Bulgaria** 0.79 percent);
- co-financing is between 0.55 and 0.7 percent of GDP (**Poland, Romania, Lithuania, Slovakia, Czech Republic, Hungary, Portugal**);
- co-financing is between 0.2 and 0.35 percent of GDP (**Malta, Italy, Slovenia, Greece**);
- co-financing is between 0.1 and 0.2 percent of GDP (**Estonia, Spain, Finland, Ireland, Belgium, France, Cyprus**); and
- co-financing is between 0.02 and 0.07 percent of GDP (**Sweden, Germany, Austria, United Kingdom, Netherlands, Luxembourg, Denmark**).

Figure 6. Scale of Cohesion Policy (2007-13 annual average commitment appropriations)



Source: *Rethinking Regional Policy at National and European Levels: Short-Term Pressures and Long-Term Challenges*, Annual Review of Regional Policy in Europe, EoRPA Paper 12/1, European Policies Research Centre, Glasgow.

The extent of national co-financing in many countries, most notably in Central and Eastern Europe, makes clear why independent domestic regional policies are weak or almost non-existent. Therefore EU Cohesion policy programmes are an important part of the frameworks for regional development in many EU countries. Indeed in several cases (e.g. **Portugal** and many **EU12** Member States), the main economic development framework is constituted by the National Strategic Reference Framework and the national/regional Operational Programmes for implementing Structural and Cohesion Funds. Even where there are separate domestic regional policy frameworks (e.g. **Finland, France, Italy, Poland, Spain, Sweden**), national programmes are partly or wholly aligned with the time-frame or thematic coverage of Cohesion policy programmes.

4.3. 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 NSRF¹¹ framework, most if not all EU Member States admit its significant influence on widely understood

11. The NSRF (National Strategic Reference Framework) constitutes the reference document for the programming of European Union funds at national level for the 2007-2013 period.

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.

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.

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 Common Agriculture Policy).

5. Debates on territorial cohesion

This section provides a brief discussion on three key issues in relation to the theme of territorial cohesion: conceptual, performance and delivery. The section draws on studies carried out by EPRC to the European Parliament on Cohesion Policy after 2013¹².

Cohesion is a core political value and priority of the European Union. Its importance is reflected in a specific Treaty title on cohesion, the existence of several dedicated funds and instruments and a budget line that accounts for more than a third of EU finances. Despite the prominent place of Cohesion Policy in the EU's constitutional, budgetary and policy architecture, it is one of the most misunderstood and contested EU policies. Indeed, the first key issue concerns the **policy's conceptualisation**. Different interpretations about the policy's rationale, function and role have existed since the policy was created and continue to the present¹³. The reform imperatives of the post-2013 budget and policy review have given fresh impetus to these debates, driven by the articulation of new ideas about the policy's spatial rationale and governance model along with the rise of territorial cohesion as an EU objective.

At the heart of the debate on the future of EU Cohesion Policy are contested understandings of the policy. Two main perspectives can be distinguished. On the one hand, a 'redistributive discourse' dismisses the policy as a mere budgetary transfer mechanism; on the other hand, an increasingly prominent 'place-based vision' portrays the policy as an integrated and territorially-focused development policy. The 'territorial turn' in Cohesion Policy discourse is evident in the increasingly frequent descriptions of the policy as a place-based development policy, a territorial development policy, a territorial cohesion policy, or an integrated development policy. The new discourse must be seen within the

12. EPRC (2011) *Comparative Study on the Visions and Options for Cohesion Policy after 2013*, Study to the European Parliament (DG Internal Policies), European Policies Research Centre, Glasgow, July 2011 and EPRC (2012) *Cohesion Policy After 2013: A Critical Assessment of the Legislative Proposals*, Study to the European Parliament (DG Internal Policies), European Policies Research Centre, Glasgow, June 2012.

13. Manzella G P and Mendez C (2009) *The turning points of EU cohesion policy*, Barca Report Working Paper, DG Regio, Brussels.

context of the rise of the territorial cohesion objective in the EU, but it has also been stimulated and popularised by a range of international reports. At the forefront of these debates are the Barca Report's articulation of a place-based vision for Cohesion Policy¹⁴, and the work of the OECD on territorial development and governance¹⁵.

It remains to be seen what these changes in the thinking will lead to in the long-term. However, certainly the recent decisions on the reforms to Cohesion Policy in the EU and the new growth and development agendas in countries as diverse as the USA, UK, Brazil, Japan and Australia all suggest that these debates are having real consequences¹⁶.

The second key issue with regards to the future of Cohesion Policy is the **performance or effectiveness of Cohesion Policy**. Indeed, in the context of the ongoing criticism about the effectiveness of Cohesion Policy, a key challenge is to ensure that it produces quantifiable results and impacts and that it visibly and measurably contributes to the Europe 2020 strategy. The Commission's proposals on ex-ante, structural, performance and macro-economic conditionalities and incentives provide a response to this challenge. The positions of most Member States have been rather cautious. This it to be expected as the implementation of these provisions implies considerable political, financial and administrative restrictions. In particular, the proposals would imply a stronger role for the Commission in shaping the content of strategies and programmes and potentially involve suspension of payments or even sanctions if objectives have not been met.

Nevertheless, if the ongoing criticism of the policy's performance is to be addressed and the policy is to be placed on a more sustainable path with increased legitimacy among EU institutions and citizens, then the Commission's proposals merit serious consideration.

Third issue concerns **delivery challenges**. One of the key focus areas of the reform has focused on simplification and streamlining of policy delivery. Considerable efforts have been made by the Commission to simplify, streamline and harmonise systems and rules, particularly through the establishment of common regulatory frameworks and requirements across different Funds. Other measures are geared more towards enhancing assurance of the legality and regularity of expenditure by, for instance, establishing accreditation bodies and procedures.

14. Barca F (2009) An Agenda for a Reformed Cohesion Policy: A place-based approach to meeting European Union challenges and expectations, Independent Report to DG REGIO, Brussels.

15. Particularly through its Territorial Reviews of OECD countries and regions. See also: OECD (2009) Background Report for TDPC Meeting at Ministerial Level, 31 March 2009, OECD, Paris.

16. Garretsen, H., McCann, P., Martin, R., Tyler, P (2013) The future of regional policy, *Cambridge Journal of Regions, Economy and Society*, 6(2), pp.179-186.

Assessing the implications of these proposals is far from straightforward. Not only are the measures wide-ranging and technical, the effects can be mutually reinforcing or conflicting depending on the particular goals pursued. A key point is that the primary focus of the legislative proposals for 2014-2020 is on simplification for beneficiaries. While the administrative savings for beneficiaries could be significant, the impact on national or regional programme administrators seems – on balance – to be limited. Finally, it needs to be recognised that there is no easy solution to the problems associated with administrative complexity and error in Cohesion policy. What is certainly needed, however, is more balance between the (often competing) goals of simplification, assurance and performance. In this sense, the proposals to enhance simplification and assurance, especially those involving radical alterations to structures or systems, require careful consideration of the trade-offs between the costs and benefits of change. It follows that the new measures must be grounded on a thorough ex-ante assessment of effects and subject to equally rigorous on-going monitoring and ex-post evaluation.

6. Case studies

A number of country cases were selected for further examination by the study team that were considered to be of interest to the regional policy network. These countries are **Sweden, Italy, Germany** and **Poland**, which cover a wide geography and provide a range of different strategic and legal framework approaches, multi-level governance mechanisms and instruments (see Table 4). Additional country information may be included in order to provide further detail on issues that are of particular interest to Latin America.

Table 4. Selection of case studies

Typology in Phase I	Country	Case study	Reasons for selection
Prominent regional disparities	Italy	Yes	The north-south divide and the Casa per il Mezzogiorno experience.
Prominent regional disparities	Sweden	Yes	Low level of inequalities.
Prominent regional disparities	Germany	Yes	Constitutional commitment to reducing regional disparities.
Widening regional disparities	Poland	Yes	Emerging national strategic framework, the National Strategy for Regional Development (KSRR).

This study phase focuses on the following themes:

- Strategic and legal frameworks;
- Multilevel governance mechanisms;
- National policy instruments: financial and non-financial instruments;
- Other territorial programmes and initiatives.

7. Strategic and legal frameworks

As discussed earlier, the objectives of regional policy and the level in the legislative hierarchy at which they are set vary considerably. In some countries (e.g. Germany, Italy and Spain), there is a constitutional commitment to equitable regional development. More commonly policy objectives are set out in broad policy documents (e.g. KSSR in Poland or the White Paper in Norway). In some countries the strategic framework is largely synonymous with EU Cohesion policy (e.g. Greece, Spain, Portugal) and in other countries there is simply no overarching strategy for regional development policy at the national level because policy responsibility is devolved to the subnational level (e.g. Belgium, United Kingdom). The following section focuses on the strategic and legal frameworks in the case study countries of Italy, Sweden, Germany and Poland.

7.1. Italy: constitutional commitment to economic development with a focus on the South

The Italian Constitution includes a commitment to State intervention to promote socio-economic development across local areas and regions, as follows: ‘State legislation shall provide for an equalisation fund – with no allocation constraints – for the territories having lower per-capita taxable capacity [...]. The State shall allocate supplementary resources and adopt special measures in favour of specific municipalities, provinces, metropolitan cities and regions to promote economic development along with social cohesion and solidarity, to reduce economic and social imbalances, to foster the exercise of the rights of the person or to achieve goals other than those pursued in the ordinary implementation of their functions’¹⁷.

Thus, regional policy is seen as an additional intervention to support investment and the provision of public services, which aims to stimulate more equal economic and social opportunities regardless of citizens’ place of residence¹⁸. This objective is translated into specific goals relating to the allocation of ‘additional’ capital account funding to

17. Governo italiano (2012a) *La Costituzione della Repubblica Italiana*, Roma, Article 119, para. 3 and 5.

18. Dipartimento per lo Sviluppo e la Coesione Economica (2012) op. cit. pp. 175-6.

structurally weaker regions, especially in the South, with the aim of facilitating the accumulation of capital and capacities seen as crucial for socio-economic development.

7.2. Sweden: national strategy focus on growth and attractiveness across all regions

The common targets of Sweden's regional policy and the responsibilities of different actors are set out in the government's regulation on 'regional growth work' (Regulation 2007:713). The objectives of the regional growth policy are defined in detail in 'The Swedish national strategy for regional competitiveness, entrepreneurship and employment for 2007-2013' and the 2010 government letter 'Strategic growth measures for regional competitiveness, entrepreneurship and employment'. Objectives continue to be defined in terms of support for 'the development of all areas of the country with strong local and regional competitiveness'¹⁹. However, policy is placing an increasing emphasis on individuals, as well as on local and regional actors, to take responsibility for the State's resources in order to generate growth. The key priorities set out in the national strategy for growth, entrepreneurship and employment have remained unchanged and valid since its inception in 2007, with a focus on innovation and renewal, competence development and labour force supply, accessibility and strategic cross-border cooperation.

Regional challenges and the implications of demographic change have prompted discussions on how all regions can remain innovative and attractive for labour and business, leading to the government's 2012 launch of the 'Attractive Sweden' initiative (see Box 2). Linked to this, there is an increasing focus on promoting multiculturalism and gender equality as new sources for attractiveness, instead of seeing them as evolving problems. In addition, environmental and climate issues have been prominent, not least in the context of preparations for Cohesion policy in 2014-20.

Box 2. 'Attractive Sweden'

An important national strategy, entitled 'Attractive Sweden', was launched in April 2012, and it aims to ensure that all regions provide good living environments and standards in order to attract labour force. Therefore, the focus is not only on solid business and industrial development, but on developing regions' attractiveness, including connectivity and infrastructure, services, housing, and meeting places and education for young people. The strategy aims to change the concept of regional competitiveness and emphasises broad partnerships. The initiative will continue until spring 2014 and centres on exchanges of experiences on innovative solutions and joint identification of key issues²⁰.

19. Regeringen (2011) *Mål och inriktning för den regionala tillväxtpolitiken*, <http://www.regeringen.se/sb/d/2498/a/91394> (accessed 19 August 2013).

20. <http://www.regeringen.se/sb/d/16092> (accessed 19 August 2013).

7.3. Germany: constitutional commitment to economic development in structurally weaker regions

Germany's regional policies (including Joint Task for the Improvement of Regional Economic Structure (GRW), the Investment Allowance and broader development policies funded by the Solidarity Pact in the new *Länder*) aim to support economic development and the creation and safeguarding of jobs in structurally weaker regions, particularly by reducing their locational disadvantages. Their objectives are to reduce regional disparities, to strengthen aggregate economic growth, to facilitate structural change and to support the constitutional goal of achieving 'equivalent living conditions' (*gleichwertige Lebensverhältnisse*). In addition, the GRW aims to provide a means of coordinating federal and *Land* support for structurally weaker regions, ensuring equal treatment of regions with similar problems, and preventing subsidy competition between *Länder*. Individual *Land* strategies (which are generally co-funded by EU Cohesion policy) aim to support economic development within each *Land*.

7.4. Poland: emerging National Strategy for Regional Development

Since 2010, Poland has moved away from the passive implementation of the rules and objectives of EU Cohesion policy, towards the gradual identification of its own development vision and the elaboration of new implementation mechanisms. The formal regional policy goals are set out in policy documents. The most important of these documents is the National Strategy for Regional Development 2010-2020 (*Krajowa Strategia Rozwoju regionalnego 2010-2020: Regiony, Miasta, obszary Wiejskie*, KSRR), which states that the strategic objective of regional policy 'covers the efficient use of specific regional and territorial development potentials for the purpose of achieving national development objectives in a long-term perspective (i.e. growth, employment and cohesion in the long term)'. It sets three specific objectives for the period up to 2020, see Box 3.

Box 3. Objectives of the KSRR

- Supporting the growth of competitiveness of regions (competitiveness). The aim is to use the potential of areas throughout the Polish territory that have the greatest capacity to spur economic growth (i.e. Warsaw and other regional centres). A related aim is to build mechanisms to diffuse development processes from these growth poles, while improving absorption potential in sub-regional centres, rural areas and other functional areas with a distinct spatial specialisation.
- Building territorial cohesion and preventing the marginalisation of problem areas (cohesion). This objective includes measures to overcome development difficulties in areas with the weakest indicators in terms of economic potential, social cohesion, institutional capacity and infrastructural amenities. The main aim is to provide external support for restructuring processes and improve access to public goods and services.

- Creating the conditions for efficient, effective and partnership-based implementation of territorially-oriented development policy (efficiency). This relates to the institutional and legal conditions necessary for implementing pro-development measures (e.g. strengthening strategic approaches, improving public management, strengthening cooperation and stimulating greater social activism).

These objectives are reflected in the priorities included in a draft version of the new urban policy that is being prepared by the Ministry of Regional Development. In July 2012, the Act on Government Administration was amended to include urban policy in the competences of the Ministry of Regional Development, so that urban policy can be included within the framework of regional policy. In Poland, urban development has traditionally been perceived in terms of the regeneration of degraded areas through central interventions. The aim now is to develop a more comprehensive approach to space management, making the ministry the centre of decision-making responsibility. The new urban policy will look at the competitiveness of Polish cities from a global perspective (suggesting a focus on the largest cities). However, there will also be a revitalisation priority and aspects dealing with legal and regulatory frameworks related to spatial planning. The amended Act came into force on 1 January 2013.

8. Multilevel governance mechanisms

The mechanisms on how to coordinate the objectives and actions at different government levels vary within the countries. In some countries, this is done through negotiated contracts, (e.g. national-regional contracts) and co-financing arrangements, while in other cases it is done by developing programmes and setting targets or by informal engagement²¹.

8.1. Contracts and co-financing arrangements

In several countries, there is a growing emphasis on the coordination of various funding streams through national-regional contracts or co-financing arrangements. 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 while boosting the participation and commitment of sub-national participants. An example can be noted from Germany.

In **Germany**, Joint Task for the Improvement of Regional Economic Structure (GRW) co-funds regional-level activities based on a federal-state framework plan and nationally-agreed eligibility and award criteria (see Section 9.1.1 (iv)). Regional policy is one of the few areas of government competence not allocated either solely to the federal or to the regional level. The 'Joint Task' is governed by a Planning Committee comprising representatives of relevant federal government ministries (chaired by the Federal Economics Ministry) and representatives of each of the states (Länder); decisions require a two-thirds majority to ensure that they reflect both federal and regional interests.

21. In addition to EoRPA, this section draws on research carried out for the report EPRC (2011) *EU Cohesion Policy in a Global Context: Comparative Study on EU Cohesion and Third Country and International Economic Development Policies*, Final Report to the European Commission (DG Regio), European Policies Research Centre, University of Strathclyde, Glasgow, March 2011.

Co-financing can be a crucial instrument of performance management, ensuring that funding and priorities are consistent in shared management systems while strengthening the commitment of different partners to efficient performance. On the other hand, they clearly rely on the availability of sufficient funds at lower levels. Moreover, this can raise issues of ownership: a perception that limited funds are being drawn from existing interventions to actions favoured by higher levels.

Where significant resources are being shared, *contractual mechanisms* provide a binding basis for ensuring efficient performance. Various types of contractual arrangements are apparent across different regimes (e.g. State-region contracts in France, territorial contracts in Poland). Such instruments usually include provisions to negotiate the integration of sectoral and regional development funding. This can be accomplished through the use of national-regional contracts or other less formal agreements. Examples are provided from Poland, as well as from France in response to the interest in this particular theme.

- In **Poland**, territorial contracts (see Box 5) between national and regional level are currently being negotiated. These contracts are a fundamental instrument of Polish regional policy, consisting of an agreement between the government and regional self-government authorities, through which regions receive from the State budget a specific level of funding for capital investments. The regions are set to have a greater say in the future, for instance, in the selection of major investments and key projects in the territorial contracts. However, from the regional perspective there are certain constraints, not least due to the fact that different regulations are perceived to limit the scale of investment in regional programmes compared to national and sectoral programmes under specific headings (e.g. innovation).
- In **France**, state-region project contracts (*Contrats de projets Etat-région*, CPER) are concluded between the regional *préfet* (following negotiations with individual ministries) and regional authorities, and contain a list of strategic projects in line with the Lisbon and Gothenburg strategies. The CPER are protocols of political intent with a non-binding character rather than contracts in the strict legal sense. These contracts do not imply any direct consequences regarding the implementation of actions contained in them. A strengthening of their legal position has been resisted because of potential adverse effects in the form of appeals and making partners more reluctant to commit funding. In alignment with EU Cohesion policy, the current CPER period runs from 2007-13. Funding for the 26 regional and 10 inter-regional contracts amounts to €29.3 billion in 2007-13, and is provided mainly by the central State (43.2 percent) and regional authorities (52.2 percent). The most important sectors in terms of State funding are public transport (25.6 percent), higher education and research (22.7 percent), and the environment (16.8 percent). €1.2 billion (i.e. 9.7 percent) of funding are allocated to measures in the field of territorial development. The extent to which the contracts are co-funded by Cohesion policy programmes varies. In the

overseas regions, the CPER provide most of the national public co-funding for ERDF programmes while in mainland France the CPER contribution varies by theme (e.g. strong link for R&D projects, no link for university infrastructure).

Contractual arrangements offer several benefits. They can strengthen linkages between regional and local policies to national priorities. By increasing policy-making responsibility, they 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 can include high transaction costs in terms of negotiation and administration. As noted in the case of Poland, there is also a danger that contracts are dominated by one side, often at the higher level. In some national regional policy systems, the legal basis of the 'contracts' is ambiguous as they are protocols of political intent with a non-binding character rather than contracts in the strict legal sense. Therefore, contracts do not imply direct consequences regarding the implementation of actions contained in them.

8.2. Programmes, targets and guidelines

A related instrument is the use of programmes with associated targets and guidelines. National and sub-national inputs into the development of programmes vary according to the institutional context and the share of funding responsibilities between levels. In more centralised cases (e.g. Poland) there is strong input from the central level through the provision of guidelines on content and structure and the right of final approval. In federal systems, regions enjoy much more autonomy on setting the programming framework for how funding is spent. Examples of Poland and Sweden are discussed below.

- In **Poland**, the Ministry of Regional Development played a leading role in determining the content of the current generation of European Regional Development Fund (ERDF) Regional Operational Programmes, 2007-13. At the outset of the programming period, the Ministry developed guidelines (or *wytyczne*) to ensure that resources are allocated according to its priorities. Several of these guidelines were 'horizontal', concerning formal requirements that apply across regional and sectoral programmes (e.g. relating to eligibility, financial control, project generation, monitoring and evaluation). However, some focused specifically on the content of the programmes.
- In **Sweden**, the Regional Development Programmes (RUP) or Regional Development Strategies (RUS), see Section 9.1.1 (i), are intended to take a holistic approach and thus to facilitate coordination across sectors and between local, regional and national

initiatives. They are developed by the regions in consultation and cooperation with municipalities, the county councils, businesses, and other relevant organisations and national authorities. Although the RUPs or RUSs are developed on the basis of the region's development challenges, the overall priorities are set out by the national level.

9. National policy instruments

9.1. Non-financial instruments

Regional policy instruments have changed considerably over time, moving from a rather narrow focus on regional investment aid and infrastructure support to a broader approach, encompassing support to the regional business environment. More recently, regional programming has become more prominent, in part reflecting the influence of Cohesion policy, but also in line with efforts to support endogenous development. In addition, the importance of sectoral initiatives to regional policy-making has been increasingly recognised. This section will focus on nationwide frameworks in the case study countries of Sweden, Italy, Germany and Poland. A case study of the UK is also provided in response to interest in the theme of regional development funds in Latin America.

(i) Sweden: Regional Development Programmes

The key policy instruments are the Regional Development Programmes (RUP) or Regional Development Strategies (RUS), which form a strategic framework for a number of different programmes. Although there have been no major changes, there has been a gradual shift of importance from the operational Regional Growth Programmes (RTP) to the more strategic Regional Development Programmes (RUP). The RUPs are intended to take a holistic approach and thus to facilitate coordination across sectors and between local, regional and national initiatives. They also establish a basis for other programmes and instruments implemented in the region, i.e. RTPs, regional Structural Funds programmes, territorial programmes and other relevant regional programmes (on themes such as infrastructure, the environment, culture, rural development, and commercial services) and activities (including cooperation in functional labour markets). Whereas a Regional Development Programme must be developed by all regions, the incidence of other programmes varies across the regions. The programmes may also include regional implementation strategies of the Rural Development Programme or Service Development Programmes which aim to increase accessibility of services for residents and businesses in the regions. The strategic focus of the programmes varies by counties, as does the way the programmes are organised. Indeed, the programmes are becoming more and more

individually tailored with a strong focus on regional attractiveness, which is seen to provide the foundation for the region's growth²².

(ii) Italy: Fund for Development and Cohesion

State regional policy resources are channelled through the Fund for Development and Cohesion (*Fondo per lo sviluppo e la coesione*, previously called the Fund for Under-utilised Areas, *Fondo per le aree sottoutilizzate*, FSC-FAS) (see Box 4), which is coordinated with Cohesion policy in terms of strategic orientation, implementation and multi-annual approach. EU Cohesion policy is focused mainly on four southern regions under the Convergence Objective (Calabria, Campania, Apulia and Sicily) but, from a domestic perspective, priority is given to all eight southern regions, although some elements of regional policy cover all regions.

Box 4. FAS Fund for Development and Cohesion (FSC-FAS)

The Fund for Development and Cohesion (FSC-FAS)²³ is the main source of State funding for domestic regional policy. It was originally set up in 2003 as the 'Fund for underutilised areas', but in 2011 its name was changed and a series of new principles were set out regarding institutional responsibilities, funding and accountability. FSC-FAS resources finance public investment in infrastructure and aid to business. The State initially allocated resources to the Fund on an annual basis, but in 2006 it was decided to provide funding for the entire 2007-13 period, in line with Cohesion policy. The State originally allocated €63,273 million of additional capital account resources to the FSC-FAS in 2007-13, with funding divided between:

- a regional component, made up of regional implementation programmes (programmi attuativi regionali, PAR), inter-regional implementation programmes (programmi attuativi interregionali, PAIN), and Service Objectives (Obiettivi di servizio), a mechanism intended to allocate financial bonuses to southern regions and the national Ministry for Education if they meet pre-defined targets in relation to improvements in key local public services (education, child and elderly care, waste management and water resources)²⁴; and
- a national component, initially made up of national implementation programmes (programmi attuativi nazionali, PAN) but re-organised in 2008 into pre-allocated funding (pre-allocazioni di destinazione), i.e. funding for the employment tax credit and infrastructure in individual regions, plus three State-managed Funds with no regional orientation, namely an Infrastructure Fund, a Strategic Fund for the country's economy, and an Employment Fund.

Various changes have been made to FSC-FAS funding since 2008. The initial funding allocation of €63,273 million has been reduced to €43,769 million, including the resources re-allocated to three national Funds which, in principle, should earmark 85 percent of funds for the Mezzogiorno (or €25,273 million excluding the three national funds).

22. Regeringen (2013) *Strategiskt tillväxtarbete för regional konkurrenskraft, entreprenörskap och sysselsättning – en sammanfattning av "Nationell strategisk rapport för Sverige"*, 2012/13:154.

23. *Ibid.*, pp. 223-46.

24. http://www.dps.tesoro.it/obiettivi_servizio/descrizione.asp (accessed 31 July 2013).

(iii) UK: Regional Growth Fund

The Regional Growth Fund is a £2.6 billion (€3 billion) fund operating across England from 2011-16. The fund was initially introduced in the government's June 2010 emergency budget, and has subsequently been extended through successive budgets and Spending Reviews, most recently in June 2013, when an additional £300 million (€354 million) per year was announced for 2015-16 and 2016-17. It aims to stimulate private sector investment by providing support for projects and programmes that offer significant potential for long-term economic growth and the creation of additional sustainable private sector jobs. The fund operates through competitive bidding rounds, which are open to private companies and public/private partnerships (including new partnerships between local authorities and businesses called Local Enterprise Partnerships, LEPs). Proposals from the public sector alone are not eligible for support, and there is a minimum bid threshold of £1 million (€1.18 million). Bids from any part of England are eligible, although one of the fund's objectives alludes to some spatial targeting (to support those areas and communities that depend on the public sector to make the transition to sustainable private-sector-led growth and prosperity).

(iv) Germany: Joint Task for the Improvement of Regional Economic Structure

German regional policy involves large-scale funding for federal and *Land* instruments and programmes, with resources focused on regions with structural economic weaknesses, particularly in the macro-region of eastern Germany but also in specific areas of the old *Länder*. There is broad-based support for regional policy intervention, which is seen to contribute to the wider constitutional goal of achieving 'equivalent living conditions' (*gleichwertige Lebensverhältnisse*) throughout Germany, although there are debates over the appropriate spatial focus and instruments of regional policy.

Key instruments include the Joint Task for the Improvement of Regional Economic Structure (*Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'*, GRW), which provides investment grants to firms in structurally weak areas and also supports infrastructure and other projects. The ERP Regional Programme is an additional instrument which awards interest rate subsidies on loans for business investment in structurally weak areas throughout Germany. The GRW and individual *Länder* also support bottom-up development strategies and initiatives in weaker areas, although the overall level of funding for them remains limited.

(v) Poland: Territorial Contracts

Domestic regional policy instruments in Poland are generally based on top-down, aid-based, investment-oriented interventions. They take a variety of forms: grants or subsidies

that provide support for local development where funding tends to be directed at small projects, for example led by municipalities; incentives for business investment in disadvantaged areas, such as State grants for foreign direct investment; tax relief for enterprises in special economic zones; fiscal equalisation mechanisms redistributing tax revenues according to social or economic equity criteria; and *ad hoc* programmes targeting regions struggling with particular problems stemming from socio-economic structures or environmental issues.

This approach is understandable given the constrained domestic resources for regional development. Nevertheless, since 2004, independent, domestically-funded policy instruments have been dropped or moved into Cohesion policy programmes, as domestic resources are used to co-finance Cohesion policy interventions. Whereas the Cohesion policy budget in Poland is substantial overall, so too is domestic co-financing. Thus, since 2004, the evolution of Polish regional policy has been shaped first by the prospect of EU membership and, subsequently, by the objectives and principles of EU Cohesion policy.

An interesting nationwide framework are the Territorial Contracts between national and regional levels in the context of the National Strategy for Regional Development, see Box 5.

Box 5. Territorial contracts

Territorial contracts, which were launched in 2001, are a fundamental instrument of Polish regional policy. They consist of an agreement between the government and regional self-government authorities, through which regions receive from the State budget a specific level of funding for capital investments (e.g. for roads, healthcare, education, tourism and culture). Since 2004, the regional self-governments have largely seen the contracts as complements of Cohesion policy under the Integrated Regional Operational Programme (2004-06) and Regional Operational Programmes (2007-13). The territorial contract system is under review, and new contracts are currently being negotiated for the 2014-20 period, in coordination with the Cohesion policy programmes for 2014-20.

According to the Ministry of Regional Development, the new contracts will be instrumental in the coordination of development activities between the State and the regional governments. The contract will not only identify the main investments that regions would like to implement, but also identify development needs and set out national priorities. The contracts will identify the objectives and tasks of each of the signatories, as well as specific instruments for their implementation, which will draw on domestic and EU funds.

9.2. Financial instruments

Increasing importance is being placed on the use of non-grant financial instruments, due to the budget pressures on government and by the general political move away

from providing aid to business in the form of grants. In addition, the economic crisis has aggravated concerns over the availability of finance to small firms in many Member States. The profile of non-grant financial instruments in regional policy has also been raised by initiatives at the level of the European Commission, for example, the JEREMIE initiative which supported Member States to channel Cohesion policy funds into financial instruments. Financial instruments are perceived to have three important attributes: they increase the sustainability of public investment; they have a leverage effect; and they enable policymakers to make use of private sector expertise. However, at the national level, the use of such instruments is not new: many countries have long used such instruments as part of economic development policy. In general, however, it is difficult to assess the scale and importance of the use of such instruments, as they are often operated at the subnational level and 'at arm's length' from public policymakers, albeit with public funds²⁵.

Much of the debate and most of the policy focus of financial instruments has a horizontal dimension, i.e. on the provision of capital to SMEs. Nevertheless, there is a spatial dimension to the use of financial instruments and four broad (but overlapping) types of approach can be identified.

- Financial instruments that are restricted to designated disadvantaged regions.
- Nationwide financial instruments which favour designated development areas.
- Nationwide financial instruments that are administered at the subnational level or earmark funding for certain regions.
- Subnational funds that operate only in a given region.

(i) Financial instruments restricted to designated disadvantaged regions

There are several examples of these in the case study countries. For example, in **Germany**, the ERP Programme, a relatively important component of German domestic regional policy, offers loans to SMEs in designated areas. Loans are offered on a commercial basis in the sense that projects must be sound and interest rates depend on the recipient's credit rating and guarantees (see Box 6).

25. This section draws on research carried out for the paper Mason C, Michie R and Wishlade F (2012) 'Access to finance in Europe's disadvantaged regions: Can 'new' financial instruments fill the gap?' *EoRPA Regional Research Consortium Paper 12/6*, European Policies Research Centre, University of Strathclyde, Glasgow, and Van Ginkel J, Vyas L, Cairns R, Michie R, Granqvist K and S Atkinson (2013) *Financial Instruments. A Stocktaking Exercise in preparation for the 2014-2020 Programming Period*, Report to the European Investment Bank.

Box 6. Germany - ERP Regional Aid Programme (ERP-Regionalförderprogramm)

The Federal Ministry for Economy and Technology is responsible for the ERP Fund, which is administered by the Credit Institution for Reconstruction (*Kreditanstalt für Wiederaufbau*, KfW), a public bank in which the federal government holds an 80 percent share and the Länder hold a 20 percent share.

The Fund (with a budget of €450m in 2011) supports SMEs in designated assisted areas through low-interest loans for fixed asset investment, technology transfer, consultancy and trade fair participation. The maximum loan is 85 percent of project costs in the new *Länder* and Berlin, and 50 percent in the old *Länder*, subject to a ceiling of €3 million. Loans are available for up to five years, with one interest-free year, or up to 15 years (20 years for construction projects), with up to five interest-free years.

Loans are available in the areas designated under the Joint Task for the 'improvement of the regional economic structure' (*Gemeinschaftsaufgabe zur Verbesserung der regionalen Wirtschaftsstruktur*, GRW).

There is also a long-standing loan scheme operated in **Sweden**, focused on the sparsely-populated regions. The Swedish *Norrlandsfonden* provides a range of forms of finance, with the funds available originally coming from a state-owned mining group LKAB, but later supplemented by government and monies raised through the activities of fund. Support is restricted to the five northernmost counties – Norrbotten, Västerbotten, Västernorrland, Jämtland and Gävleborg – areas meeting the low population density criterion. The Norrland Fund finances firms, primarily SMEs, at all stages of development (start-up to expansion), especially in new technology sectors or business areas with growth potential. The financial instruments offered take the form of flexible loans, convertible bonds and guarantees²⁶. In addition to its lending activities, the fund aims to influence the economic and venture capital infrastructure of the area, notably through co-investing in equity with other investors. The fund invests approximately SEK 250 million (€30m) annually and currently has investments in around 350 firms. Overall the fund has equity capital of over SEK 1 billion (€120m) under management.

In **Italy**, support for investment and competitiveness is available as part of a wider programme of soft loans (*Agevolazioni per investimenti produttivi*) from Invitalia. Two strands of the scheme are restricted to the four Convergence regions of the south, with loan funding totalling €200 million disbursed in two calls for proposals. Loans are for a period of up to eight years, plus a repayment holiday, with interest rates at 20 percent of the reference rate (but overall aid value subject to the regional aid guidelines).

26. Research and development and infrastructure may be grant-aided from the fund.

There is also an example of equity-based intervention in **Italy**, where support is provided in the form of loans to intermediaries for equity investment in SMEs in assisted areas from *Banca del Mezzogiorno - Mediocredito Centrale*, (see Box 7) which specialises in the provision of finance to the south of Italy and the administration of financial incentives to firms on behalf of the public administration²⁷. The firms invested in must be new and the equity purchased with the loan must amount to at least 20 percent of the total and be held for a maximum of five years; the loan may cover up to 50 percent of the price of the holding, subject to a ceiling of €2.06 million in any single investment. The budget for the regional policy element of the scheme is €132 million.

Box 7. Banca del Mezzogiorno

Access to finance in the South of Italy is perceived to be a particular issue and in response the Banca del Mezzogiorno was established in 2011. Banca del Mezzogiorno - Mediocredito Centrale is a financial institution whose mission is to support projects for the development of SMEs in Southern Italy, increasing the availability of credit in the medium - long term and supporting central and regional public administration in the management of facilitating measures to support of the national production system. Banca del Mezzogiorno - Mediocredito Centrale divides its activities into two business lines:

1. Industrial and agricultural credit, to support investment projects in the medium - long term, the development and growth of industrial and agricultural enterprises operating in the South.
2. Management of public funds and subsidized instruments on behalf of the Public Administrations in order to facilitate access to credit and business development across the national territory, including through the use of EU funds. For example, support is provided in the form of loans to intermediaries for equity investment in SMEs in assisted areas, and in the form of guarantees through the Central SME Guarantee Fund (*Fondo Centrale di Garanzia per le Piccole e Medie Imprese*) which provides counter-guarantees on bank loans to SMEs.

(ii) Nationwide financial instruments which favour designated development areas

One example in the case study countries of a financial instrument which is available nationwide but offers favourable terms in disadvantaged areas in the Central SME Guarantee Fund in Italy (*Fondo Centrale di Garanzia per le Piccole e Medie Imprese*). This provides counter-guarantees on bank loans to SMEs²⁸. The fund is managed by Banca del Mezzogiorno - *Mediocredito Centrale*. Counter-guarantees are second-level guarantees on guarantees given by first level guarantee providers, which in Italy are for the most part regional CONFIDI (credit guarantee consortia). Project selection is carried out by the first level

27. Law 388/2000 – see http://www.incentivi.mcc.it/capitale_di_rischio/capitale_di_rischio.html#

28. http://www.fondidigaranzia.it/fondo_di_garanzia.html#

guarantee providers. Firms approach banks or a CONFIDI to obtain a loan or a direct guarantee and thereafter, through the bank or CONFIDI, requests the intervention of the Central Guarantee Fund. Although the Fund operates throughout Italy, its conditions are more favourable in the regional aid Article 107(3)(a) areas, as well as in areas covered by development contracts and other forms of negotiated programming.

(iii) Nationwide financial instruments that are administered at the subnational level or earmark funding for certain regions

There are numerous examples of instruments which operate on a nationwide basis, but which comprise a degree of regional sensitivity either through regional-level representation/governance, or through a network of sub-national funds, all overseen by a central national body. In **Sweden**, for example, 12 regional venture capital funds managed by public sector agencies cover the entire country. The funds are run in the form of projects financed by European Regional Development Fund (ERDF) and co-financed by the regions. All 12 funds are managed by five different project owners. The funds invest together with private commercial actors on equal terms, which mean that ERDF and the national public agency each contribute 25 percent and private actors 50 percent of the investment. Each fund is only allowed to invest in its own region. Two funds differ in that they work with lending instruments alongside equity capital. The funds have a total budget of €264 million, of which €73m is from the ERDF, the rest equal contributions from public and private sectors. A total of 124 investment decisions have been made in all so far, involving total investment of SEK786 million (€93 million) - SEK328 million (€39 million) from the ERDF and public sources, and SEK458 million (€54 million) in private co-financing.

A network of loan and guarantee funds has developed in recent years in **Poland**. Guarantees have become particularly important, because the financial crisis has led banks to look for guarantees for projects which they would previously have funded without security. Although the main instrument is the National Credit Guarantee Fund (NCGF) at the *Bank Gospodarstwa Krajowego* (National Economy Bank, BGK), which has a fund of around €180 million, the bank also oversees 13 regional funds (with 16 planned), worth around €120 million. Shareholders include regional governments, RDAs, business organisations and the BGK. There are also 47 local funds (with 100 planned), accounting for around €30 million with county or municipal authorities and the BGK as shareholders. Between 1994 and 2007, regional and local guarantee funds issued 20,067 guarantees, amounting to €400 million. In addition to loan and guarantee funds, supported by the establishment of stronger regional business support institutions and access to Cohesion policy funding, regions are increasingly initiating venture capital and business angel funds.

(iv) Subnational funds that operate only in a given region

There is considerable experience with the operation of subnational financial instruments in **Germany**, notably through the individual public *Land* banks which are an important part of the financial landscape in Germany and operate a range of loan schemes targeting SMEs in particular.

10. Other territorial programmes and initiatives

In the context of increasing internationalisation, globalisation and integration, interconnections, interrelations and cooperation between countries and regions have intensified and expanded. Related to this is a surge in interest in territorial cooperation²⁹. The 2007-13 programme period has seen the emergence of new instruments for territorial cooperation, for instance in the form of tailor-made responses to address macro-regional challenges.

10.1. European Territorial Cooperation

European Territorial Cooperation (ETC) is an established strand of the EU Cohesion Policy framework, contributing to the main aim of fostering balanced development by strengthening cross-border, transnational and interregional cooperation (see Box 8). At present, the ETC Objective extends to 52 cross-border programmes, 13 transnational programmes and an interregional cooperation programme, and it affects over 500 million Europeans. The current budget of €8.7 billion accounts for 2.5 percent of the total European Regional Development Fund (ERDF) budget and funds a diverse range of projects.

Box 8. European Territorial Cooperation (ETC) strands

Cross-border Cooperation (INTERREG IV A): The main aim of the cross-border cooperation is to reduce the negative effects of borders as administrative, legal and physical barriers, tackle common problems and identify and exploit unused potential. Through joint management of programmes and projects, mutual trust and understanding are strengthened and the cooperation process is enhanced.

Transnational Cooperation (INTERREG IV B): The transnational cooperation programmes add a European dimension to regional development in the Member States. This allows cooperation in projects between regions from several EU Member States on matters such as communication corridors, flood management, international business and research linkages, and the development of more viable and sustainable markets.

29. Perkmann, M. (1999) 'Building Governance Institutions across European Borders' *Regional Studies*, 33(7), 657-67, p. 662; Scott, J. W. (2002), "Transboundary Governance in the Baltic Sea Region: Emerging Patterns, Preliminary Results", in: *Regional and Federal Studies*, 12(4), 135-153.

Interregional Cooperation (INTERREG IV C): Interregional cooperation works at a pan-European level, covering all EU Member States and more. Cooperation aims at building networks to develop good practice and facilitate the exchange and transfer of experience by successful regions.

The INTERREG IV C programme is structured around two priorities: innovation and the knowledge economy, and environment and risk prevention. Furthermore, there are three networking programmes: URBACT II, ESPON and INTERACT II focusing on exchange, sharing expertise and learning cooperation between cities, applied research and management respectively.

An important development for the 2007-13 period was the creation of a specific management instrument – the so-called **European Grouping of Territorial Cooperation (EGTC)** – to facilitate cooperation and prevent discrimination that may arise from different legal arrangements over the border.

Post 2013, territorial cooperation will remain a major policy priority for the EU and the Member States. The continuing added value of territorial cooperation programmes are highlighted in, for example, the Commission's Green Paper on Territorial Cohesion and the Fifth Cohesion Report and, crucially, the Europe 2020 Strategy, the EU's growth strategy for the coming decade, adopted by the European Council in spring 2010. Nevertheless, there are on-going concerns about its effectiveness, for example in capturing and quantifying benefits³⁰, management and linkages with Convergence/Competitiveness programmes, and there have been calls for greater standardisation of rules and procedures across Member States³¹.

10.2. Macro-regional strategies

Macro-regional strategies are broad-based, integrated instruments that include territories from a number of different countries or regions, which are associated with one or more common features or challenges³². The strategies focus on the alignment of policies and funding to increase policy coherence and the overall impact of public spending in the macro-region.

It is the development of a macro-regional strategy that establishes a macro-region from the European Union's perspective. The EU Strategy for the Baltic Sea Region, for example,

30. Panteia et al. (2010) *Ex post evaluation of INTERREG 2000-2006*, Final Report to DG Regio, Brussels; DG Regio (2010) *European Territorial Cooperation, High Level Group Reflecting On Future Cohesion Policy*, DG REGIO, Brussels.

31. European Commission (2011) *Results of the public consultation on the conclusions of the fifth report on economic, social and territorial cohesion* Brussels, Commission Staff Working Paper, SEC(2011) 590 final, 13 May 2011.

32. Samecki, P. (2009) *Macro-regional Strategies in the European Union. Discussion paper presented by Commissioner Wawel Samecki in Stockholm, 18 September 2009.*

defines a macro-regional strategy as “an integrated framework to address the challenges and opportunities” of a particular geographical area³³.

The Baltic Sea Strategy is often presented as a blueprint for other possible macro-regions³⁴. It is the first, and so far the only, macro-region in the EU. The Strategy was adopted by the European Council in October 2009. The formal process leading to the Strategy’s development has its origins in recommendations from the European Parliament (2007), a subsequent invitation from the European Council to the Commission to develop an EU Strategy for the Baltic Sea region, and a large-scale consultation of officials as well as private and public stakeholders. However, at the heart of the Strategy are the shared concerns of countries along the Baltic over the environmental degradation of the Baltic Sea and historical ties.

It is still too early to tell exactly where the concept of macro-regional cooperation will go, but it is becoming an embedded aspect of EU Cohesion policy. Macro-regions are obviously linked to other forms of territorial cooperation, notably transnational cooperation. However, the EU Structural Funds are one of the main funding sources for macro-regional cooperation. The financial relationship between macro-regions and Cohesion policy funds has been a widely debated issue³⁵. Even apart from the funding question, macro-regions are increasingly discussed as important tools of Cohesion policy delivery. For example, the Fifth Cohesion Report establishes a link between the goal of territorial cohesion and macro-regions. Thus, “further work on new macro-regional strategies should be based on a thorough review of existing strategies and the availability of resources. Macro-regional strategies should be broad-based integrated instruments with support from a reinforced trans-national strand, although the bulk of funding should come from the national and regional programmes co-financed by Cohesion Policy, and other national sources³⁶.”

In particular, macro-regions are place-based policies that seek to promote development in functional regions, based on the strengths of these regions, and involving policy coordination at multiple levels. As such, they fit neatly with the Europe 2020 objectives of smart, inclusive and sustainable growth, while recognising the objectives of social, economic and territorial cohesion. Looking to the future, the profile, presence and role of macro-regions as operational entities seems increasingly assured.

33. Commission of the European Communities, Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions concerning the European Union Strategy for the Baltic Sea Region, Brussels, 10.6.2009, COM(2009) 248 final.

34. Commission of the European Communities, *Communication from the Commission*, op. cit, p. 2.

35. ‘Cross-border “macro-regions” unlikely to get own funding’, EU Observer, 13 April 2010.

36. CEC, Communication from the Commission: Conclusions of the fifth Report on economic, social and territorial cohesion.

11. Community-led local development

Over the past 20 years, the EU has initiated a number of different approaches to community-led local development (CLLD), such as LEADER, URBAN and EQUAL (see Box 9). It is particularly the LEADER approach which has become an important element of rural development policy with a high level of acceptance all over Europe. Since 2007, local development has also been a policy delivery tool in the European fisheries sector. The future CLLD is based on the LEADER approach and concerns all the Funds covered by the Common Strategic Framework (i.e. European Regional Development Fund, European Social Fund, European Agricultural Fund for Regional Development, European Maritime and Fisheries Fund and Cohesion Fund) in the 2014-2020 programme period (the so-called CSF Funds)³⁷.

CLLD is a specific tool for use at sub-regional level, which is complementary to other development support at local level. CLLD can mobilise and involve local communities and organisations to contribute to achieving the Europe 2020 Strategy goals of smart, sustainable and inclusive growth, fostering territorial cohesion and reaching specific policy objectives³⁸.

Box 9. LEADER, URBAN and EQUAL

LEADER, which stands for 'links between actions of rural development', is a method of mobilising and delivering rural development in local rural communities, rather than a fixed set of measures to be implemented. Since its launch in 1991, Leader has provided rural communities in the EU with the tools to play an active role in shaping their own future. It has evolved over time and become an important element of rural development policy with a high level of acceptance all over Europe.

37. European Commission, 'Community-led Local Development', Cohesion Policy 2014-2020, Factsheet

38. *Ibid.*

URBAN II, which was funded by European Regional Development Fund (ERDF), ran during the 2000-06 programme period (and its predecessor URBAN during 1994-99) with the aim of supporting innovative strategies for sustainable economic and social regeneration in a limited number of urban areas throughout Europe.

EQUAL was part of the EU's strategy for more and better jobs and for ensuring that no one is denied access to them. The initiative focused on supporting innovative, transnational projects aimed at tackling discrimination and disadvantage in the labour market. These projects were created to generate and test new ideas with the aim of finding new ways of fighting all forms of discrimination and inequality within and beyond the labour market. Funded by the European Social Fund (ESF) and co-funded by the EU Member States, the initiative ran during 2000-06 programme period.

12. Conclusions

This study has provided a comparative assessment of national regional policies in Europe with a view to providing a source of inspiration for regional development policies and processes in Latin American and Caribbean countries within the framework of the launch of a new regional policy network. The analysis drew primarily on the results of a long-term programme of research and knowledge exchange under the aegis of a European regional policy network (EoRPA) that is managed by the European Policies Research centre at the University of Strathclyde in Glasgow (United Kingdom)³⁹. This concluding section draws together the key themes to emerge from the comparative analysis and highlights some potential areas that could be of interest for developing further knowledge exchange between Europe and Latin America in the future.

The starting point for the comparative assessment was the regional problem. In Europe, regional policy largely focuses on the long-term challenges of development and restructuring. Increasingly, these structural issues are seen not only to involve socio-economic dimensions but also problems relating to sustainability. In many countries, however, the short-term horizon is dominated by continued financial and economic problems in the Eurozone and elsewhere, reflected in weak growth, rising unemployment and constraints on public investment. These challenges are the key driving forces affecting regional development and regional policy responses along with well-recognised drivers of geographical inequality: the tension between national and regional economic development and strong sectoral shifts in less-developed countries and regions; agglomeration and spread effects, with problems typically being most acute in the least accessible regions; and endowments of human, knowledge, public and social capital.

National governments in Europe have developed different types of regional policy. They share common characteristics, most notably a political recognition that the geographical differences in social and economic development across a national territory are due to market or government failures requiring outside intervention. The forms of intervention

39. See <http://www.eprc.strath.ac.uk/eorpa/default.cfm> for further details.

are, however, very different with respect to the objectives, strategies, priorities, governance and instruments used. Also, they evolve over time in response to factors such as changing economic circumstances, new governments and policy programmes, or outside pressures such as the EU Cohesion policy and EU Competition policy frameworks.

The regional policies of many countries involve a mix of efficiency and equity objectives, with different policy elements or interventions serving different objectives. The last decade or more has seen a shift in objectives across a number of countries from an emphasis on spatially-targeted measures – especially business aid schemes for general investment in designated problem areas – towards all-region policies aimed at increasing regional and national competitiveness and often with a particular focus on innovation. The all-region approach is, however, not universal, and several countries still have a strong, regionally-selective approach to regional policy intervention. Selective spatial targeting continues to be an important component of policy, and additional support is commonly offered to regions facing particular development challenges. In some cases, this regional selectivity has been intensified by the economic crisis. A number of countries are also looking at new ways to define and designate regions and target support, involving a wider range of policy interventions at different spatial scales. Territories and spaces such as macro-regions, regional corridors, city-regions, localities and ‘functional areas’ are becoming the subject of increasing attention in regional policy agendas and strategies, especially at EU level.

National strategies for regional development across the EU are often integrated or subsumed within EU Cohesion policy, given the EU requirement to develop National Strategies Reference Frameworks to underpin Cohesion policy investments. However, a distinctive trend in the past 2-3 years is the emergence in the less-developed countries in Central and Eastern Europe of new domestic strategies asserting, sometimes for the first time, a national perspective on regional development. Outside the EU12, national frameworks for regional development have not seen the same extent of change, although policy reviews indicate possible substantial changes in coming years in several countries.

In parallel with the reduced use of regional aid over the past decades, regional policies have placed increased emphasis on improvements to the business environment. An important driver has been policy thinking focused on addressing supply-side factors such as local or national transport and IT infrastructure, the availability of business sites and premises, the quality and availability of skills, access to business finance, links between SMEs and universities, and the costs of regulation. In recent years, business environment support in many countries has been concentrated on clusters, growth poles or other defined local areas. Focusing more on fiscal and regulatory support, the use of Enterprise Zones has re-emerged as a policy tool for the business environment. In addition to regional policy business aid and support for the business context in problem regions or lagging areas, several countries have

broader programmes or strategies covering a range of interventions that are targeted at particular regions suffering from difficulties of economic restructuring, underdevelopment, peripherality or other specific territorial disadvantages.

As noted, a distinctive feature of regional policy in Europe is the strong influence of EU Cohesion policy. The EU's Structural and Cohesion Funds provide a very significant financial resource in many EU12 countries and most EU27 Member States recognize the influence of Cohesion policy on regional policy governance, especially in terms of strategic programming and priorities, partnership-working and consultation, and the monitoring and evaluation of regional policies. 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. In all EU Member States, the territorial cooperation strand of Cohesion policy – comprising cross-border, transnational and inter-regional strands – is widely recognized to have provided a major source of EU added value in facilitating cooperation on development strategies and projects across different territorial levels, albeit facing significant institutional and administrative challenges. Looking forward, the 2013 reform of Cohesion policy is placing greater stress on the territorial dimension at different territorial and functional scales, especially through support for macro-regional strategies and community-led local development; on performance, through thematic concentration, contractualisation/conditionality and financial incentives; and on the simplification of delivery and management.

Aside from reviewing EU-wide trends and the relationship with Cohesion policy, four country cases were examined in more detail to provide further insight into the strategic-legal frameworks, governance and instruments of a sample of national regional policies (Germany, Italy, Poland, Sweden). In these cases, the objectives of regional policy are codified in constitutional commitments to equitable regional development (Germany, Italy) and/or in strategic policy documents (e.g. Poland, Sweden). The mechanisms used to coordinate the objectives and actions at different government levels include negotiated contracts and co-financing arrangements (France, Germany, Poland) and/or the development of programmes, targets and guidance (Poland, Sweden). The substantive focus is broad – from business development to various forms of infrastructure development – usually involving a combination of direct aid, loans and other financial instruments. Financial instruments may target designated disadvantaged regions (Germany, Italy), favour designated areas across the whole country (Italy) or the whole country but administered sub-nationally (Poland, Sweden).

Following the presentation of this study to the regional policy network in Brasilia on 2 December 2013 and based on the various interventions and exchanges with policy-makers

at the meeting, several areas of research and knowledge exchange can be identified that would be of particular interest to the network members in the coming years with respect to the international knowledge exchange strand of the network's mission.

- **EU-Latin America benchmarking and comparison.** To provide lessons and recommendations for the Latin-American context it would be appropriate to undertake a structured comparison of national regional policies in Europe (based on the comparative and country research developed by the European regional policy research consortium - EoRPA) with the emerging regional policies in Latin America (based on the on-going work of CEPAL/ILPES). Such comparative work is particularly important to raise the profile of regional policy on the agenda of Latin American countries and to stimulate joint learning with European countries.
- **EU Cohesion policy.** The primary focus of this study was on national regional policies in Europe, including a brief review of the relationship with EU Cohesion policy and its territorial cooperation and local development strands. For the future, there are a range of areas that could be explored in more detail where the EU has consolidated experience and that would be of interest to the Latin American network: multi-level governance; strategic programming and operational integration of funds; monitoring systems and evaluation of implementation and impacts; project generation and selection approaches; and capacity-building. The EPRC has built up a unique stock of knowledge on these themes through another network of Cohesion policy programme – based on a programme of knowledge exchange on the design, delivery, management and evaluation of Structural Fund programmes (the IQ-Net network)⁴⁰ – that could be of interest to the members of the Latin American regional policy network.
- **EU Territorial Cooperation.** Cross-border cooperation programmes in Latin America are in their infancy, yet provide a concrete and tangible area for sharing experiences within the region and for engaging in cooperation projects across Latin-American countries and regions with the potential for tangible impacts on territorial development. The EU has more than 25 years of experience in supporting territorial cooperation programmes between regions and countries – not only within the EU borders but also beyond – providing a rich source of inspiration for developing such initiatives in Latin America and that would be worth exploring in further studies.

40. See <http://www.eprc.strath.ac.uk/iqnet/default.php> for further details.

EUROsocial is a regional cooperation programme between the European Union and Latin America for the promotion of social cohesion through support for national public policies and the strengthening of the institutions that put them into practice. EUROsocial aims to promote a European-Latin American dialogue about public policies surrounding social cohesion. Its aim is to contribute to reform and implementation processes in ten key areas of public policy in certain thematic areas selected for their potential impact on social cohesion. The instrument provided is that of institutional cooperation or peer-to-peer learning; the exchange of experiences and technical advising between European and Latin American public institutions.

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This study provides a comparative assessment of national regional policies in Europe with a view to providing a source of inspiration for knowledge exchange in Latin American and Caribbean countries within the framework of the launch of a regional policy network.

National governments in Europe have developed different types of regional policy with respect to the objectives, strategies, priorities, governance and instruments used. Regional policies have evolved over time in response to changing economic circumstances, new governments and policy programmes, or outside pressures such as the EU Cohesion policy and EU Competition policy frameworks. The last decade has seen a shift in objectives across a number of countries from an emphasis on spatially-targeted measures towards all-region approaches with a particular focus on innovation. However, several countries still have a strong, regionally-selective approach to regional policy and territorial features – such as macro-regions, regional corridors, city-regions, localities and functional areas – are receiving increasing attention in regional policy agendas. National strategies for regional development are often subsumed within EU Cohesion policy, although new domestic strategies have been emerging in the less-developed countries in Central and Eastern Europe. Key trends in policy instruments include reduced use of regional aid and more emphasis on improvements to the business environment.

EU Cohesion policy provide a very significant financial resource in the less-developed EU countries and most countries recognize the influence of Cohesion policy on regional policy governance, especially in terms of strategic programming, multi-level governance and partnership-working, and the monitoring and evaluation of regional policies. The territorial cooperation strand of Cohesion policy is widely recognized to have provided a major source of EU added value in facilitating cooperation across borders.

