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Preface

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

Austria
- Bundeskanzleramt (Federal Chancellery), Vienna

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

France
- Commissariat Général à l'Egalité des territoires (General Commissariat for Territorial Equality, CGET, previously DATAR), Paris

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

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

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

Norway
- Kommunal-og Moderniseringsdepartementet (Ministry of Local Government and Modernisation), Oslo

Poland
- Ministerstwo Infrastruktury i Rozwoju (Ministry of Infrastructure and Development), Warsaw

Sweden
- Näringsdepartementet (Ministry of Enterprise, Energy and Communications), Stockholm

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

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

The research for the country reviews was undertaken by EPRC in consultation with EoRPA partners. It involved a programme of desk research and fieldwork visits among national and regional authorities in sponsoring countries during the first half of 2014. The EoRPA research programme is coordinated by Professor John Bachtler, Fiona Wishlade, Dr Sara Davies and Heidi Vironen.

This paper should be referred to as: S. Davies, M. Ferry and F. Gross (2014) *Policy Reform under Challenging Conditions: Annual Review of Regional Policy in Europe*, EoRPA Paper 14/1, Paper prepared for the 35th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014.

The country reviews were edited by an EPRC team led by Dr Sara Davies and also comprising Stefan Kah, Stephen Miller, Patricia Robertson, Dr Arno van der Zwet and Heidi Vironen. Country-specific research was contributed by the following research team:

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EXECUTIVE SUMMARY

This report provides a comparative overview of regional policies in 30 European countries. It examines the current situation and highlights key developments since the start of 2013, as well as the main factors underpinning change.

The crisis/downturn continues to affect regional disparities in Europe

The scale of regional disparities in individual European countries varies. Regional disparities are particularly high in Central and Eastern European countries which are continuing to see significant economic restructuring with a clear territorial dimension. Within the EoRPA countries, there are relatively high levels of regional disparities on indicators such as GDP per employee, unemployment rates, patent applications per capita, and the percentage of the population at risk of poverty.

In the long-term, regional disparities are driven by structural factors, such as uneven sectoral change, self-reinforcing agglomeration effects, interregional interactions, and institutional frameworks. In addition, economic shocks can have region-specific effects, depending on sectoral structure and regional capacities for adaptation. The crisis/downturn has increased regional disparities across Europe (partly due to national effects) but trends within individual countries vary.

Thematic objectives have been strengthened

The strategic objectives of regional policy are multi-dimensioned, due to the complexity of regional development, domestic political debates, and the influence of EU Cohesion policy. Countries can be grouped together, based on the varying emphasis placed on: reducing economic disparities between regions; tapping the potential of all territories; and ensuring the contribution of regions to national growth.

A number of countries have revised the core objectives of regional policy in 2013-14, either because national regional policies are closely linked to EU Cohesion policy and regional aid cycles or due to domestic political decisions. There is an increased focus on themes such as innovation/R&D, urban development, energy efficiency, social cohesion, employment, and governance.

Cohesion policy funding to most poorer countries will fall in 2014-20

Cohesion policy funding allocations (relative to national GDP) are stable in most wealthy countries in 2014-20 but show a reduction in a number of poorer countries, partly because of increases in these countries' GDP over the past decade and also because a lower proportion of the total Cohesion policy package is being allocated to the poorest countries and regions in 2014-20.

The only other reliable comparative source of data on regional policy funding across European countries relates to expenditure on regional aid. Data for 2010-12 show no clear correlation between national prosperity and the level of regional aid as a percentage of GDP.

EU frameworks are reshaping the geographical focus of regional policy

EU Cohesion policy and EU regional aid policy strongly influence the geographical focus of regional policies across Europe, via the allocation of different funding levels to particular regions and by constraining the allocation of regional aid to certain regions. The maps associated with the two EU frameworks have been redrawn for 2014-20, leading to changes in coverage in some countries.

Regional policy continues to focus on areas of structural or locational disadvantage, but there is also an emphasis on areas with potential, notably urban areas and industrial zones. In some countries, spatial targeting is being reassessed against the background of new emerging disparities.

Instruments are being revised for 2014-20 but trends remain unclear

Regional policy involves a mix of instruments, including business support, business-oriented infrastructure, support packages, funding for bottom-up development, and mechanisms aimed at enhancing quality of life and public services in weaker areas.

Although there is continuity in some countries, others are still in the process of reformulating their portfolio of instruments for 2014-20. Countries have focused on ensuring European Commission approval of the regional aid maps and Cohesion policy Partnership Agreements before finalising instruments for 2014-20. There is particular uncertainty in the case of schemes affected by State aid rules, such as those providing aid to larger firms or funding for certain types of infrastructure.

The emphasis on managing policy performance strengthens further

The institutional frameworks of regional policy vary considerably across countries, due to differences in the allocation of tasks to the national or regional level and in the degree of coordination.

Regional policy structures have been reformed in a number of countries in 2013-14, driven by EU frameworks and domestic administrative change. The clearest shifts relate to a further increase in the emphasis on ensuring the effectiveness of regional policy via efforts to strengthen evaluation systems and methodologies, and additional investments in administrative capacity.

Key outstanding issues include:

1. Are new patterns of regional disparity emerging (e.g. due to changing economic circumstances) and, if so, how should regional policy respond?
2. Is the stronger focus on thematic objectives a useful approach to addressing regional economic disparities?
3. Is there sufficient funding for regional policy? Are there domestic constraints on regional policy expenditure?
4. Which geographical scale is most appropriate for tackling regional disparities? Does this depend on the type of regional problem? Is there a need for domestic maps in addition to EU-level maps?
5. Is new thinking needed on the instruments of regional policy? What other instruments could be envisaged? Is there enough flexibility to respond to any future crises?
6. Is there a need for changes in the institutional arrangements of regional policy?

1. INTRODUCTION

The past 18 months have witnessed substantial re-assessments and adjustments in regional policy across Europe. In part, this is the result of **preparations for the 2014-20 period of EU policy-making**. In the EU, Member States have been preparing and submitting Cohesion policy Partnership Agreements and Operational Programmes to the European Commission, as well as new regional aid maps and related aid instruments. These processes have changed the frameworks within which national regional policies operate, particularly in countries which have experienced significant changes in Cohesion policy funding and in the coverage of regional aid maps. Within this, the Europe 2020 strategy stresses particular EU objectives under ‘smart, sustainable, inclusive growth’, while also calling for greater coordination of national and EU policy.

Moreover, **the economic crisis and downturn continue to shape the reform of regional policy** in particular countries. The crisis has affected the pattern of regional socio-economic disparities and is generating a re-assessment of regional policy responses and instruments. In addition, the consequences of the crisis continue to constrain funding for regional policy.

Further, regional policy systems continue to evolve according to **different domestic contexts** and agendas. These processes are leading to changes in the strategic objectives, geographical focus, institutional frameworks, instruments and funding levels of regional policy in particular countries.

Against this background, this report provides a **comparative overview of the current situation and recent changes in regional development policies across 30 European countries** (i.e. the EU28, Norway and Switzerland). It highlights key developments since the start of 2013 and the main factors underpinning change. The report explores how individual countries fit within the broader European picture by assessing existing arrangements and recent processes of change under six headings that cover different aspects of regional policy:

Chapter 2 analyses national and regional disparities across 30 European countries.

Chapter 3 focuses on regional policy objectives, both from a territorial and a thematic perspective.

Chapter 4 focuses on the funding of regional policy and compares European countries in terms of financial allocations from Cohesion policy and also in terms of actual expenditure on regional aid.

Chapter 5 assesses the geographical orientation of regional policy, including the impact of EU frameworks and domestic maps, as well as the types of territory targeted.

Chapter 6 is concerned with regional policy instruments, providing an overview of the main types of instrument, as well as changes in 2013-14.

Chapter 7 discusses changes to the institutional frameworks of regional policy and especially the scale of policy delivery, approaches to coordination, and the use of performance management tools.

Last, **Chapter 8** brings together the main points and identifies key issues for discussion.

The report draws on a **programme of research on developments in regional development and regional policy in 2013-14**, including desk research and semi-structured interviews with senior policy-makers responsible for the design and implementation of domestic regional policy, Cohesion policy and regional aid maps in 30 European countries.

More detailed country-specific information on the different dimensions covered in this report can be found in:

(i) the report produced for each of the 30 European countries in 2014,[1]
(ii) tables comparing regional policy instruments, including changes in these instruments in 2013-14,[2]
(iii) fiches on regional aid instruments and other regional policy instruments (e.g. infrastructure investment and bottom-up measures), focused on 2014-20,[3]
(iv) fiches on Cohesion policy in the EU28 in 2014-20,
(v) fiches on regional aid maps for 2014-20 in the EU28 and Norway, and
(vi) fiches on the institutional frameworks of regional policy in the 30 European countries.

[1] See: EoRPA (2014) *EoRPA Country Reviews*, Paper 14/2, prepared for the 35th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 5-7 October 2014

[2] See: EoRPA (2014) *Regional Policy Instruments in Europe: Comparative Tables*, Paper 14/3, prepared for the 35th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside on 5-7 October 2014

[3] Access to all the fiches (as well as the country reports and tables on regional policy instruments) is via the partner pages of the EoRPA website: http://www.eprc.strath.ac.uk/eorpa/default.php

2. REGIONAL ECONOMIC DEVELOPMENT IN EUROPE

KEY FINDINGS

There are considerable economic and social disparities between countries in Europe and also between regions within individual countries. The national economic situation is more challenging in Central and Eastern European countries, as well as in those countries most severely affected by the financial crisis of 2008-09 and the subsequent economic downturn. In around half of the EU Member States, GDP in 2013 remained lower than in 2007 (at constant prices and in national currencies).

The scale of regional disparities in individual European countries varies. Regional variation (especially on GDP per capita) is particularly high in Central and Eastern European countries which are continuing to see significant economic restructuring with a clear territorial dimension.

In the long-term, regional disparities are driven by structural factors, such as uneven sectoral change, self-reinforcing agglomeration effects, interregional interactions, and institutional frameworks.

However, the financial crisis has shown how economic cycles and shocks can have region-specific effects, depending on sectoral structure and regional capacities for adaptation. The crisis has led to a widening in regional disparities in GDP per capita across Europe (partly due to national effects) and also within some individual countries.

An analysis of a smaller selection of countries (Austria, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Sweden, Switzerland and the United Kingdom) shows stronger national and regional performance than the EU average on most indicators. However, some of these countries show relatively high levels of regional disparities on indicators such as GDP per employee, unemployment rates, patent applications, and the percentage of the population at risk of poverty.

2.1 Introduction

The economic picture across Europe in 2013-14 is characterised by strong contrasts. There is **clear variation between countries and regions on key economic indicators and in the extent of recovery** from the 2008-09 financial crisis and the economic downturn. Although the recovery is becoming more widespread and most countries are expected to show positive economic growth in 2014, overall rates of growth and job creation remain muted.[4]

The **scale of regional economic and social disparities within individual countries varies**, depending on economic structures, physical geography and the degree and types of policy intervention aimed at limiting territorial differences. A key challenge in comparing regional disparities across European countries relates to data at a regional level, due, for example, to limited availability of indicators, short time-series, gaps for particular regions or countries, and constraints on data at a more disaggregated (NUTS 3) level.

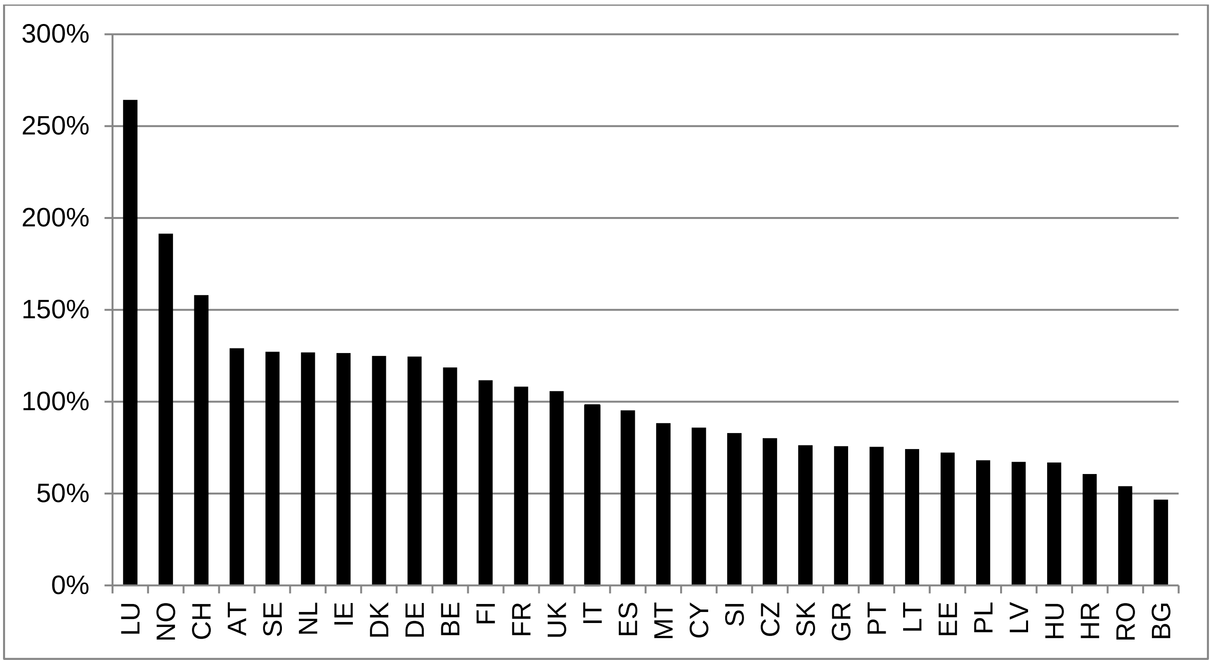
[4] European Commission (2014) European Economic Forecast – Spring 2014, *European Economy* 3/2014, http://ec.europa.eu/economy_finance/publications/european_economy/2014/pdf/ee3_en.pdf

This chapter begins by examining differences in national economic development across the EU30 countries (the ***EU28, Norway and Switzerland***), before looking at regional disparities in these countries. It then explores national and regional indicators in ***Austria, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Sweden, Switzerland*** and the ***United Kingdom*** in more detail.

2.2 National economic development in the EU30

There are **strong disparities between European countries in terms of national economic development**, as shown by differences in national levels of GDP per capita (PPS) in 2013 (Figure 1).

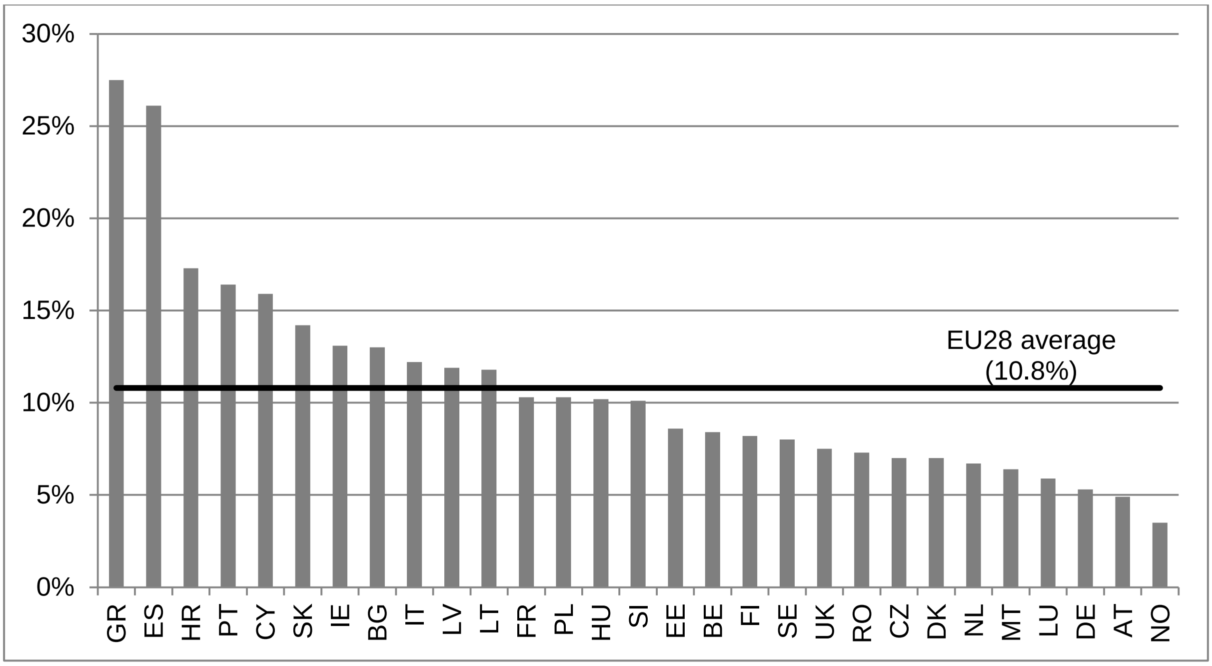
Figure 1: National GDP per capita (PPS) as a percentage of EU28, 2013



Source: EPRC calculations based on Eurostat data (nama_gdp_c [last updated 03.09.14])

Similarly, **unemployment rates vary significantly between European countries**, with particularly high rates in countries most affected by the financial crisis and subsequent downturn (Figure 2).

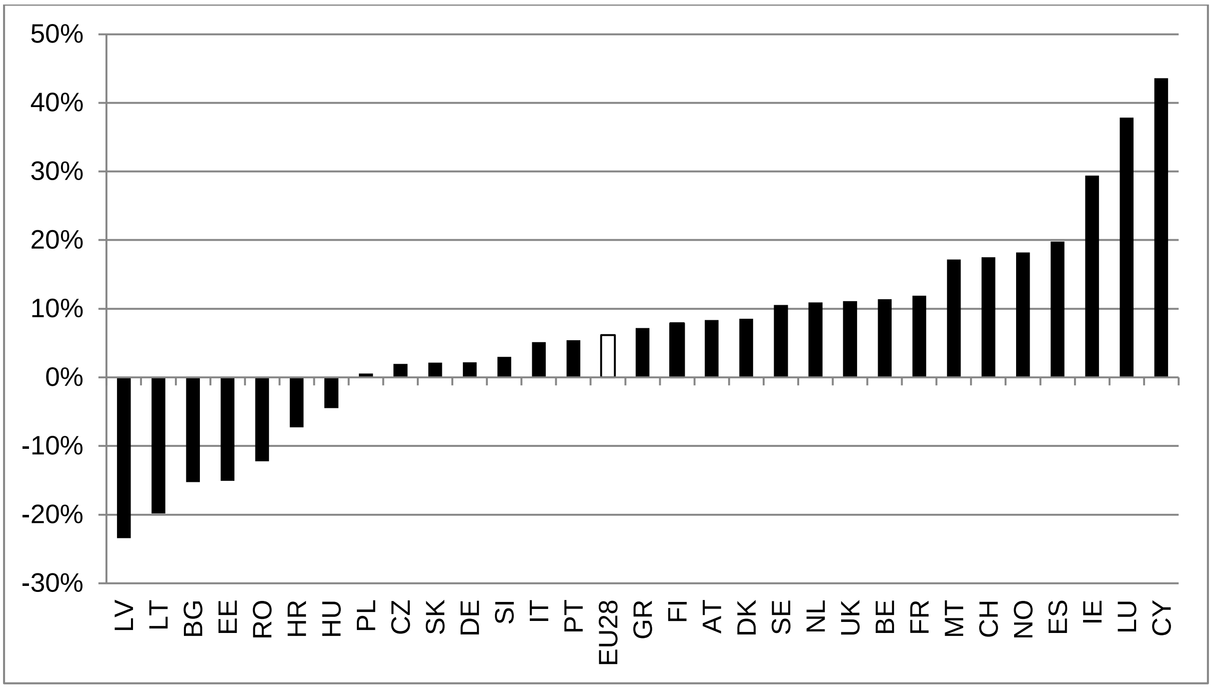
Figure 2: National unemployment rates, 2013



Source: EPRC calculations based on Eurostat data (une_rt_a [last updated 29.08.14])

These differences partly reflect variation in long-term structural development across countries. The countries of ***Central and Eastern Europe***, in particular, have seen radical changes in economic, social and institutional structures since the early 1990s. One indicator of change relates to demographic developments, with many countries showing a decline in population in 1992-2013 (Figure 3).

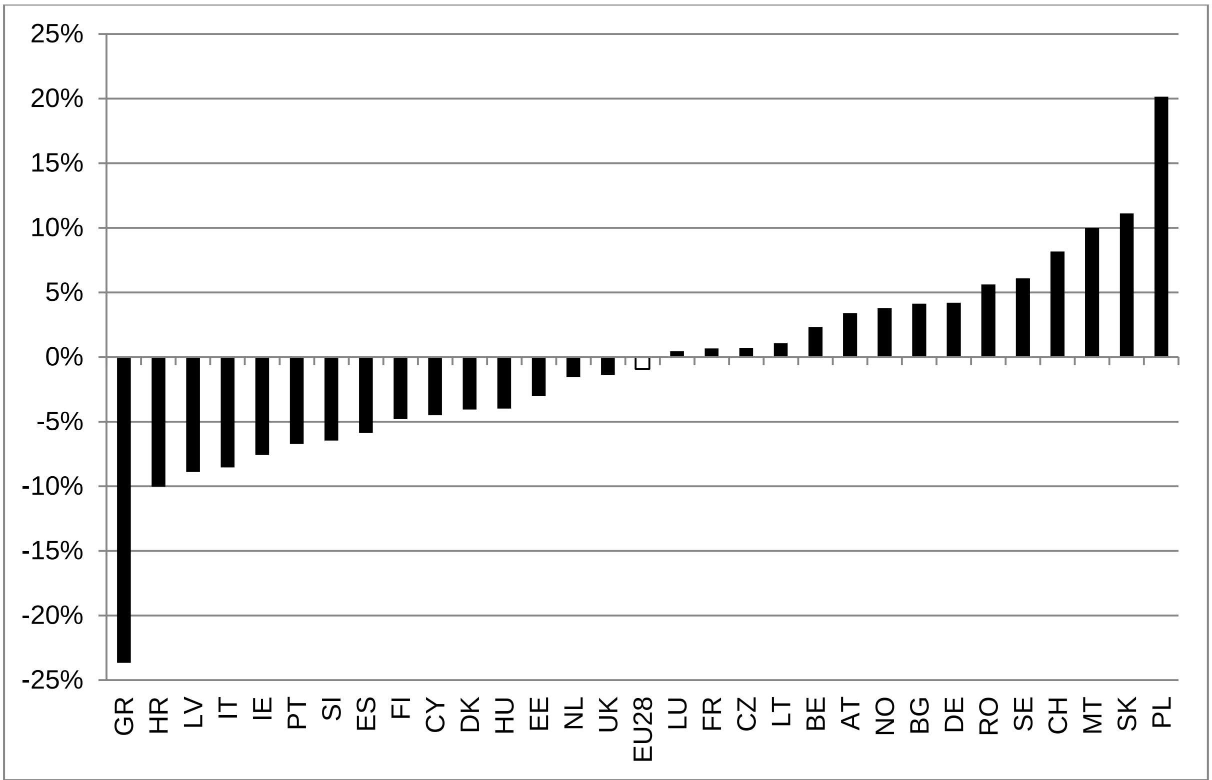
Figure 3: National population changes, 1992-2013 (percentage change)



Source: EPRC calculations based on Eurostat data (demo pjan [last updated 13.08.14])

A further recent driver of variation between countries is the **financial crisis of 2008-09 and the subsequent economic downturn**. Although all European countries were affected by the crisis, there has been strong variation in the scale and timing of impact and, especially, the degree of recovery. In a number of European countries, national GDP in 2013 remains below the pre-crisis level (2007) in constant prices (Figure 4). Key factors which have shaped impact and recovery include: the economy's export-orientation, the extent of any housing/construction bubbles, the structure of the financial sector, the degree of public sector indebtedness, and the extent to which institutional frameworks have facilitated adaptation and resilience in the face of economic change.[5]

Figure 4: GDP in 2013 as a % of GDP in 2007 (constant prices, national currencies)



Source: EPRC calculations based on Ameco data (OVGD [accessed 09.09.2014])

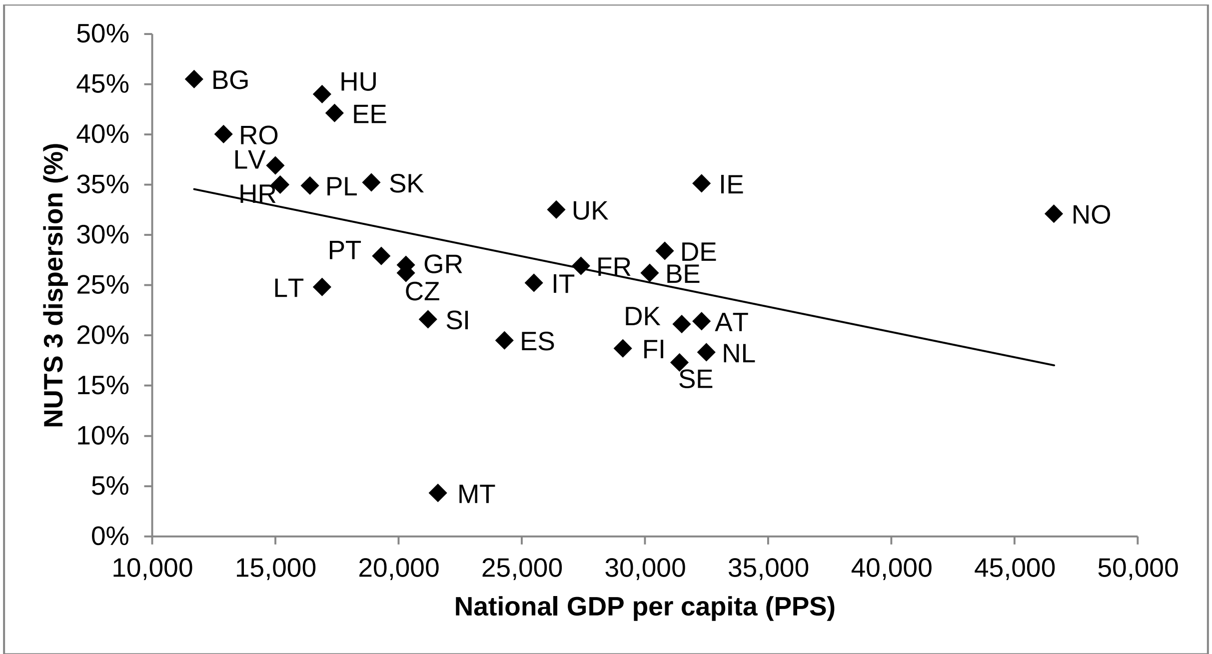
[5] European Commission (2009) Economic Crisis in Europe: Causes, Consequences and Responses, *European Economy No. 7*, Luxembourg: Office for Official Publications of the European Communities

2.3 Regional economic development in the EU30

2.3.1 An overview of regional disparities

The scale of regional disparities varies between countries and across indicators, such as GDP per capita and unemployment rates (Figures 5 and 6). Looking across the EU30, there is a positive correlation between high national GDP per capita and low regional dispersion; however, this correlation does not hold when looking solely at wealthier countries. The shape of regional economic development in a particular country is due to a complex combination of driving forces, including geographical location and natural resources but also a range of other factors.

Figure 5: GDP per capita (PPS), national level and regional dispersion (NUTS 3), 2011



Source: EPRC calculations based on Eurostat data (nama_r_e0digdp [last updated 21.05.14] and nama_gdp_c, [last updated 03.09.14])

2.3.2 Long-term drivers of regional disparities

One important stimulus of regional variation is **long-term structural and sectoral change**. This is particularly evident in the case of ***Central and Eastern European countries***, where new service-sector and manufacturing activities have emerged in the main cities and other areas with large labour and with access to large markets (often in western areas). Over time, structural change typically spreads to other regions, as costs rise in the leading cities and as interregional linkages improve.[6]

Initial uneven patterns of development may, however, become permanent due to the **cumulative and self-reinforcing effects of agglomeration economies**. Firms and workers may gain from co-locating with other economic agents, due to positive interactions between market size, trade costs, input-output linkages, labour pooling and knowledge spillovers.[7] The benefits of agglomeration may

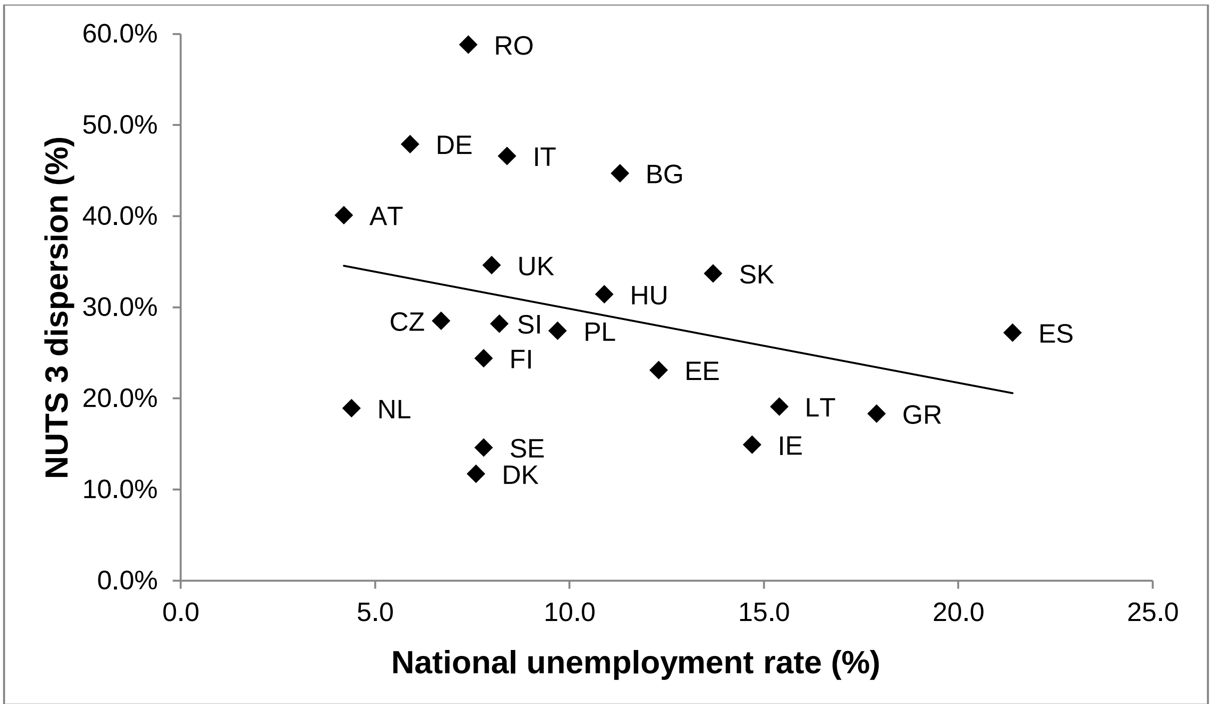
[6] J Williamson (1965) Regional inequality and the process of national development: a description of the patterns, *Economic Development and Cultural Change* 13: 3-45.

[7] A Marshall (1920): *Principles of Economics*, London: MacMillan; M Fujita, P Krugman and A Venables (2001) *The Spatial Economy*, Cambridge MA: MIT Press; P Romer (1986) Increasing returns and long-run growth, *The*

outweigh the costs of agglomeration, such as congestion, which could instead encourage firms and workers to move to other regions. In addition, **developments in other regions** affect the opportunities and constraints facing firms and workers in a particular region.[8]

Last, **policy and institutional frameworks shape regional disparities**. From a negative viewpoint, institutions may be seen to generate distortions which limit the mobility of capital and labour. For example, regional disparities might be expected to fall because, as the amount of capital per worker in richer regions rises, there is a reduction in marginal returns to capital, which in turn encourages firms to seek investment opportunities in other regions.[9] More positively, policy can help to reduce disparities, for example by encouraging the regional diffusion of change, while regions with links to many different social networks may be more adaptable and resilient in the face of external shocks.[10]

Figure 6: Unemployment rates, national rate and regional dispersion of rates (NUTS 3), 2011



Source: EPRC calculations based on Eurostat data (lfst_r_lmdur, last updated 21.05.14, and une_rt_a, last updated 29.08.14)

2.3.3 Regional disparities in the aftermath of the financial crisis

Although the effects of the financial crisis and downturn have been felt internationally and although some countries have seen lasting macroeconomic impacts, **the crisis also showed vividly how economic cycles and shocks can have region-specific effects, depending on sectoral structure and regional capacities for adaptation**.[11] The strongest impacts were seen in export-oriented

Journal of Political Economy 94: 1002-1037; R Lucas (1988) On the mechanisms of economic development, *Journal of Monetary Economics* 22: 3-42.

[8] G Myrdal (1957) *Economic Theory and Underdeveloped Regions*, London: Duckworth.

[9] R Solow (1956) A contribution to the theory of economic growth', *Quarterly Journal of Economics* 70: 65-94

[10] G.Grabher (1994) *Lob der Verschwendung (In Praise of Waste*), Berlin: Sigma.

[11] S. Milio et al (2014) *Impact of the Economic Crisis on Social, Economic and Territorial Cohesion of the EU*, Report to the European Parliament, Brussels.

regions (although these have generally been short-lived) and in regions with large (housing) construction sectors.[12] Varying patterns of impact can be traced in different types of area, notably metropolitan regions, second-tier cities and rural areas.

The crisis has led to a widening in regional disparities in GDP per capita across Europe (partly due to national effects) and also within some individual countries (notably ***Bulgaria, Romania, Greece*** and the ***United Kingdom***).[13] Where regional disparities have fallen, this is often due to the stronger impact of the crisis on leading (export-oriented or metropolitan) regions, although ***Germany*** has seen genuine improvements in the situation of structurally weaker regions in 2009-14.[14]

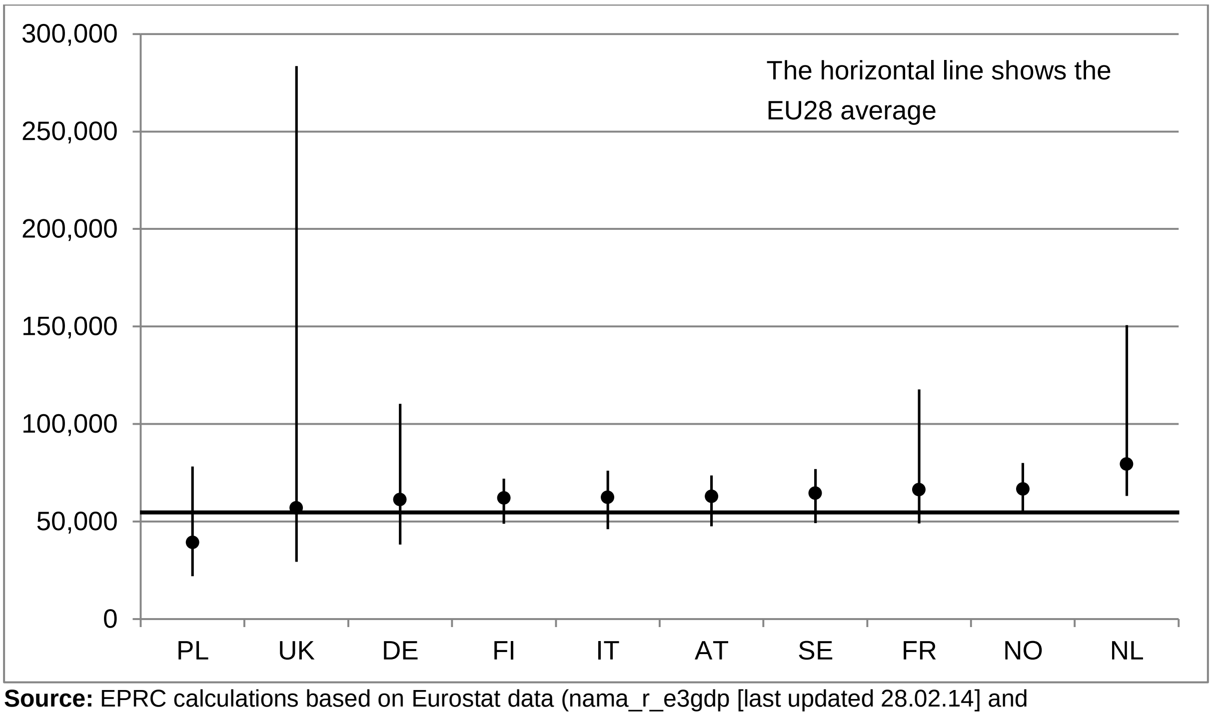
2.4 Regional disparities in selected European countries

This section provides a more in-depth assessment of a smaller number of European countries, namely ***Austria, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Sweden, Switzerland*** and the ***United Kingdom***.

2.4.1 Core socio-economic indicators

Labour productivity is a key indicator of economic strength and is here measured in terms of GDP per employee (see Figure 7).

Figure 7: GDP per employee (PPS) 2011, national average and regional range (NUTS 3)



Source: EPRC calculations based on Eurostat data (nama_r_e3gdp [last updated 28.02.14] and nama_r_e3em95r2 [last updated 08.09.14])
Notes: (1) Data are not available for Switzerland. **(2)** The figure shows the national average as a dot, and the range of regional values (i.e. the highest and lowest regional values) as a vertical line.

[12] S. Davies (2011) Regional resilience in the 2008–2010 downturn: comparative evidence from European countries, *Cambridge Journal of Regions, Economy and Society* 4 (3): 369-382 .

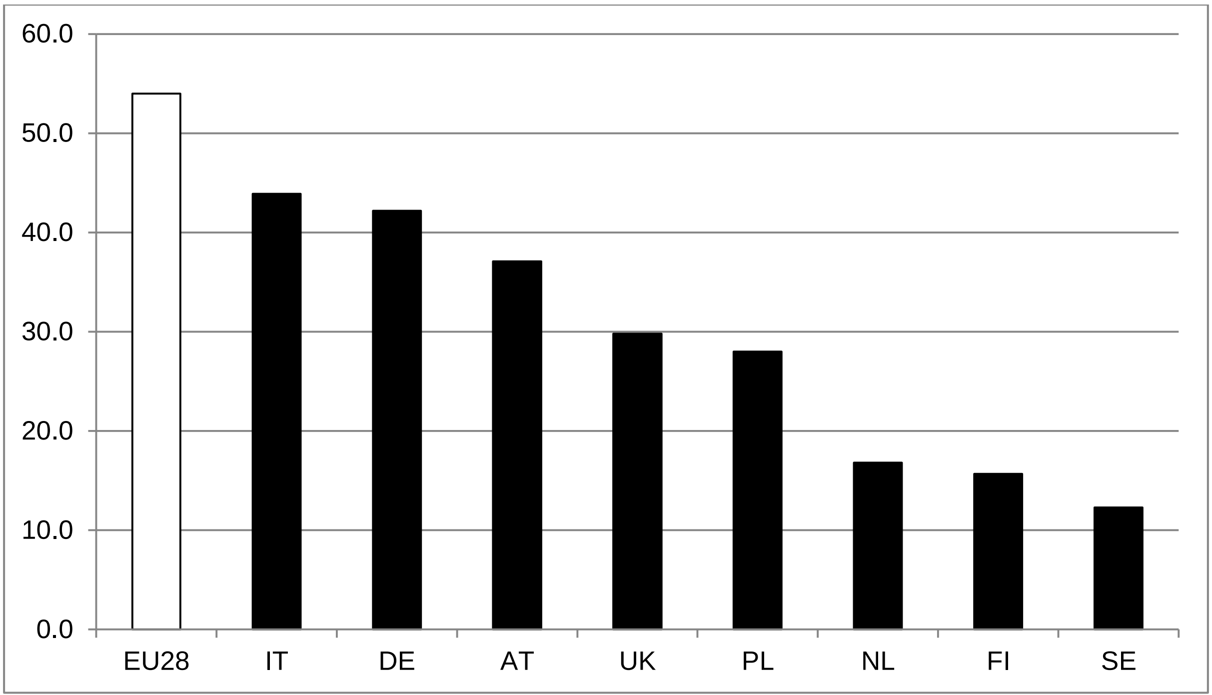
[13] European Commission (2014) *Investment for jobs and growth: Promoting development and good governance in EU regions and cities: Sixth Report on Economic, Social and Territorial Cohesion*, Brussels.

[14] See also two Special Issues of the Cambridge Journal of Regions, Economy and Society: (i) The Geographies of Austerity, Volume 4(3), November 2011 , and (ii) Austerity in the City, Volume 7(1), March 2014.

At a national level, differences between these countries are limited, although levels are slightly lower in ***Poland*** and slightly higher in the ***Netherlands***. However, regional variation in labour productivity is significant in some countries, notably the ***United Kingdom*** but also ***France, Germany, the Netherlands*** and ***Poland***. This is partly due to capital city effects, notably the concentration of certain sectors (e.g. financial services) in the main cities, and the statistical effect of business headquarters being located in these cities. Although it might be expected that regional disparities would consistently be higher in larger countries (simply due to the large number of regions), this is not the case for ***Italy***, where the range of regional GDP per employee is relatively low.

Clearly, however, labour productivity only provides information on certain dimensions of economic activity. In particular, it does not take account of **differences in employment or unemployment rates**. Although the dispersion of regional unemployment is below the EU average in all countries for which data are available (see Figure 8), there are considerable differences between, for example, ***Italy*** and ***Germany*** on the one hand, and the ***Netherlands, Finland*** and ***Sweden*** on the other.

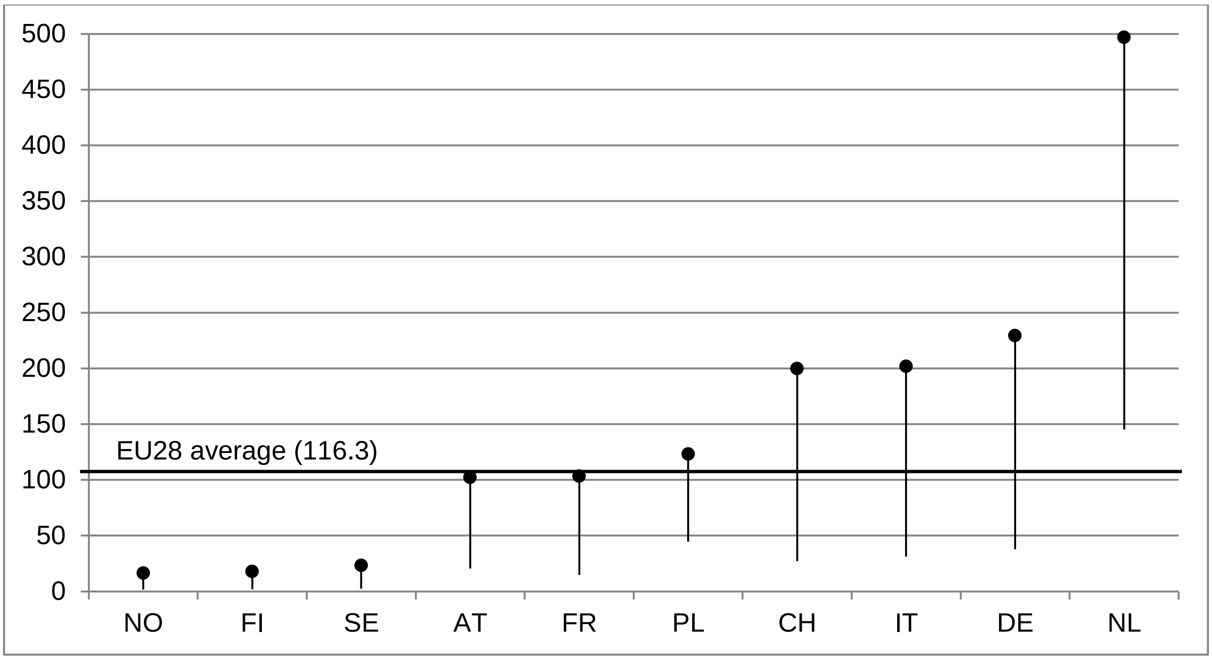
Figure 8: Dispersion of regional unemployment (NUTS 3), 2010



Source: EPRC calculations based on Eurostat data (demo_r_d3dens [last updated 28.02.14]).
Notes: Data are not available for France, Norway or Switzerland.

A further important dimension in some countries relates to **population density**, which can limit business competitiveness by raising costs and lowering agglomeration benefits, as well as increasing the costs of household goods and services and constraining employment creation (see Figure 9). Nevertheless, countries with very low population density regions, notably ***Finland, Norway*** and ***Sweden***, have a history of policy intervention to reduce negative impacts on firms and households.

Figure 9: Population density, 2012, national average and NUTS 3 region with the lowest value

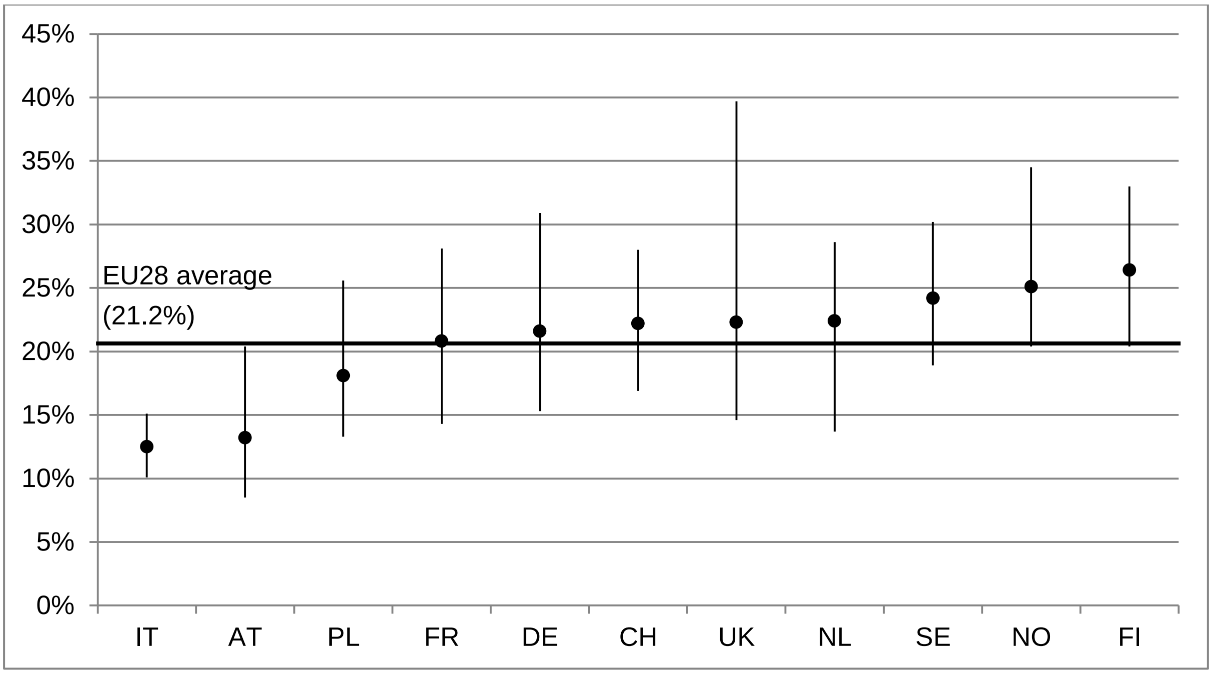


Source: EPRC calculations based on Eurostat data (demo_r_d3dens [last updated 28.02.14])
Notes: (1) Data are not available for the UK. **(2)** The dot shows the national average, and the vertical line shows regional values which are below average; the figure does not show above-average values.

2.4.2 Business innovation indicators

Regions vary in terms of the intensity of **business innovation**, partly because knowledge spillovers and other agglomeration economies mean that innovative activities tend to concentrate in certain locations, but also due to differences in sectoral structure.

Figure 10: Population with tertiary education (ISCED) and employed in science and technology (%), 2012, national average and regional range (NUTS 2)

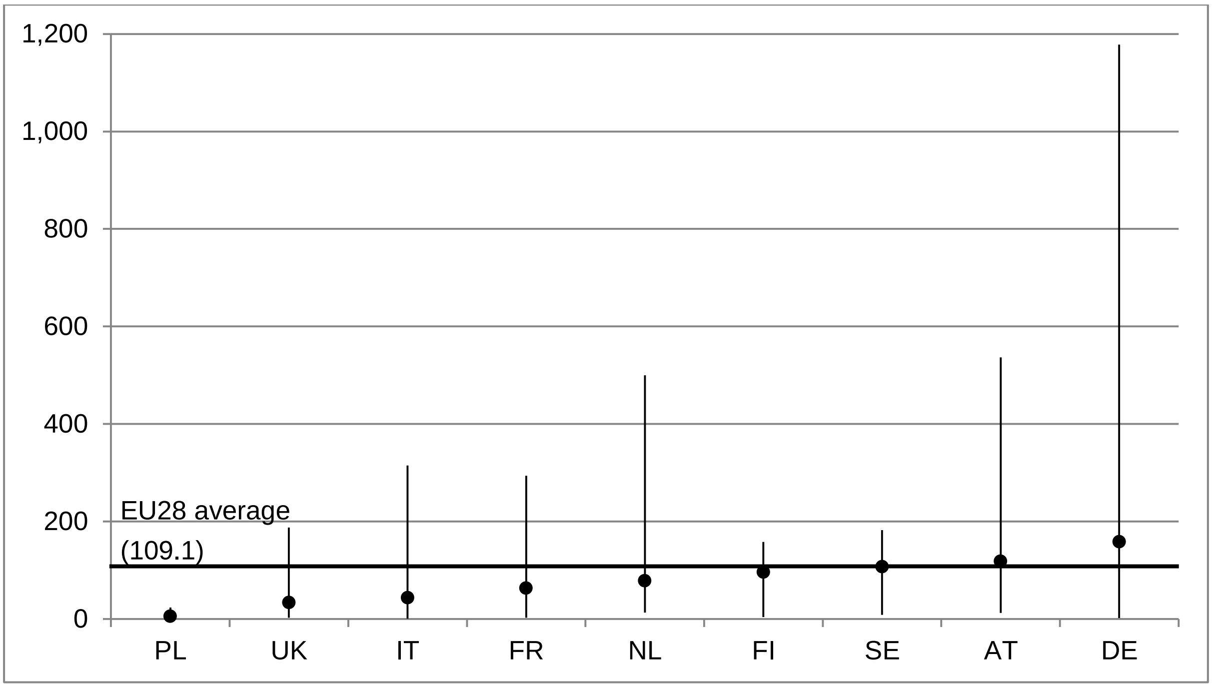


Source: EPRC calculations based on Eurostat data (hrst_st_rcat [last updated 11.06.14]).
Note: The dot shows the national average, and the vertical line shows the range of regional values.

Figure 10 shows the percentage of the **population with tertiary education which is also employed in science and technology** activities. Most countries are above the EU average (except for ***Italy, Austria, Poland*** and ***France***), and the degree of regional variation differs, with particularly high rates in the ***United Kingdom***.

Figure 11 provides information **patent applications** (per capita) to the European Patent Office (i.e. not all patent applications). Levels are below the EU average in all countries except ***Germany, Austria*** and ***Sweden***, largely because the EU average is skewed by the very high level of patenting activity in Germany (accounting for over 40 percent of all patents to the EPO in 2010.[15] There are wide differences in regional levels of patenting within countries such as ***Germany, Austria*** and the ***Netherlands***. Patenting activity is shaped strongly by sectoral structure and particularly by the prevalence of sectors where new products and services can be clearly defined and patented and where it is financially and administratively worthwhile for businesses to register patents.

Figure 11: Patent applications to the European Patent Office (EPO) per million population, 2010, national average and regional range (NUTS 3)



Source: EPRC calculations based on Eurostat data (pat_ep_rtot [last updated 30.01.14]).

Note: (1) Data are not available for Norway and Switzerland. **(2)** The dot shows the national average, and the vertical line shows the range of regional values.

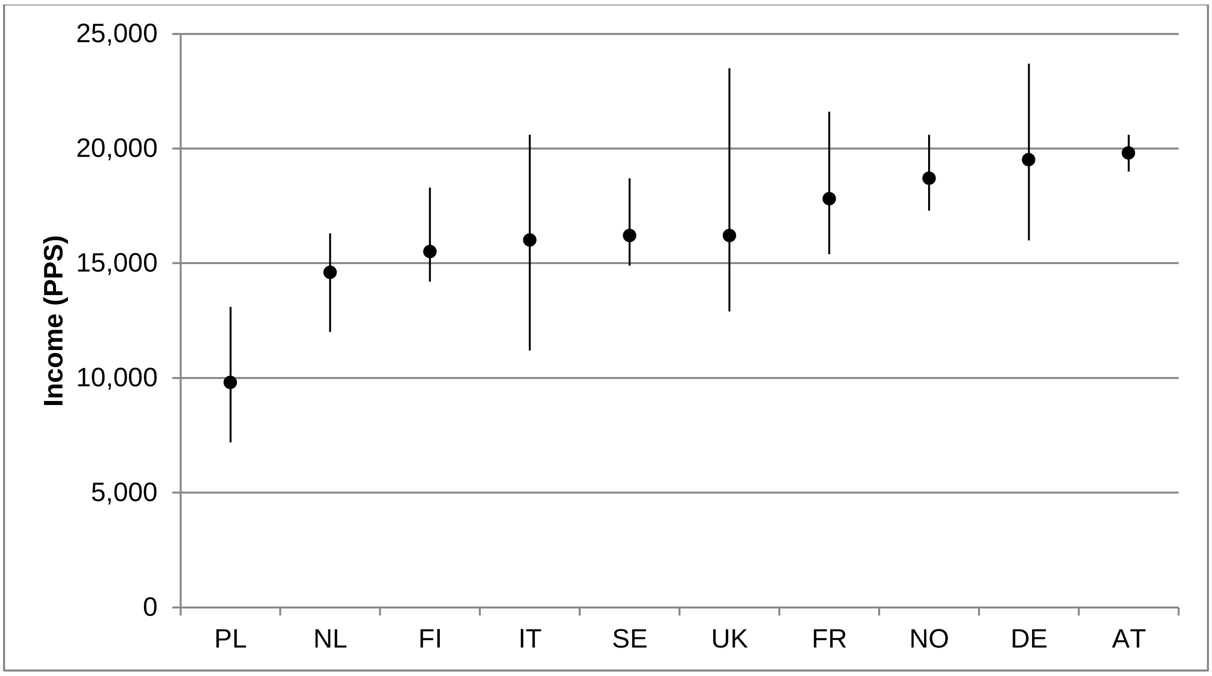
2.4.3 Social indicators

Indicators of social well-being may also vary between countries and regions. Figure 12 shows national and regional levels of **household disposable income**. One reason for differences in household disposable income between countries is variation in the degree to which household/personal services (e.g. education, healthcare, care for children and the elderly) are provided via public services, are paid for privately, or are undertaken within individual households (i.e. not monetised). In all countries,

[15] See http://epp.eurostat.ec.europa.eu/statistics_explained/index.php/File:Patent_applications_to_the_EPO,_2010_%281%29_%28number%29_YB14.png (accessed 15 September 2014)

tax-benefit systems reduce regional variation in household disposable income (e.g. compared to regional variation in GDP per capita) but differences are stronger in ***Italy, the United Kingdom*** and ***Germany*** than in some other countries.

Figure 12: Household disposable income (PPS) per capita, 2011, national average and regional range (NUTS 2)

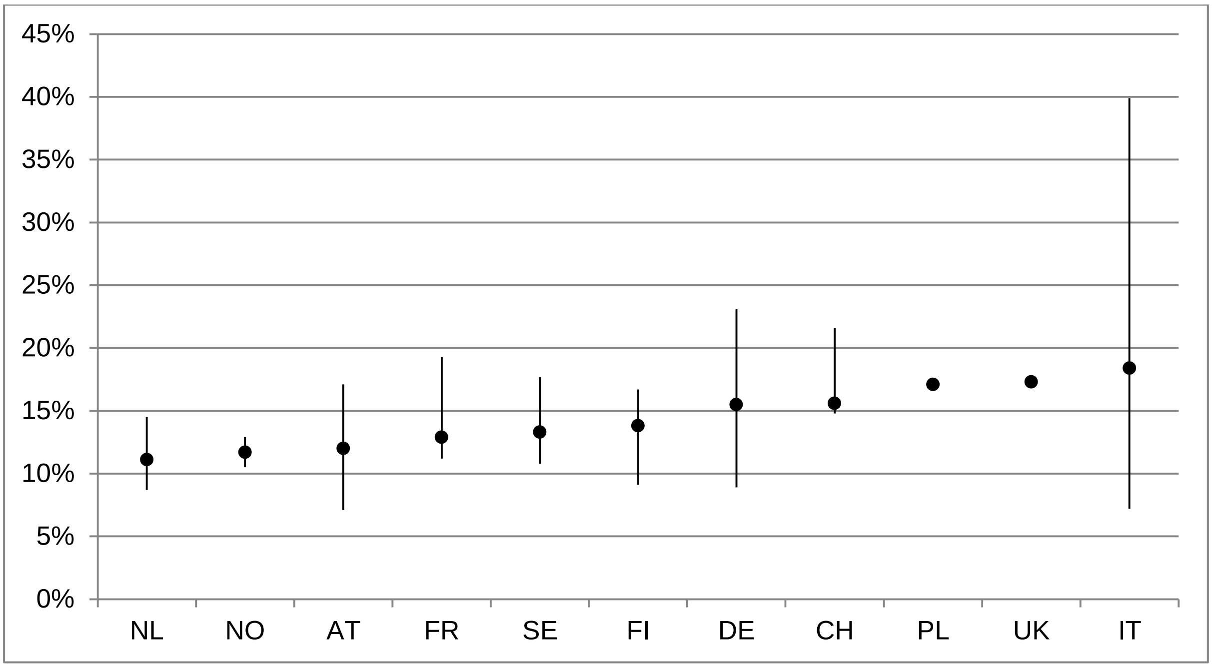


Source: EPRC calculations based on Eurostat data (nama_r_ehh2inc [last updated 28.03.14]).

Notes: (1) Data are not available for Switzerland or for the EU average. **(2)** The dot shows the national average, and the vertical line shows the range of regional values.

Figure 13 provides an alternative measure of regional social disparities, namely the percentage of people defined as 'at risk of poverty'. There is a degree of variation between countries, with national levels higher in ***Italy, the United Kingdom*** and ***Poland*** than, for example, in the ***Netherlands, Norway*** and ***Austria***. Regional variation is particularly high in Italy and especially low in Norway. However, data are only available at NUTS 2 level and so may not sufficiently reflect infra-regional disparities, especially in urban areas. For example, Inner London is the richest NUTS 2 region in the EU but is also home to large communities who are at risk of poverty.

Figure 13: People at risk of poverty (%), 2009, national average and regional range (NUTS 2)

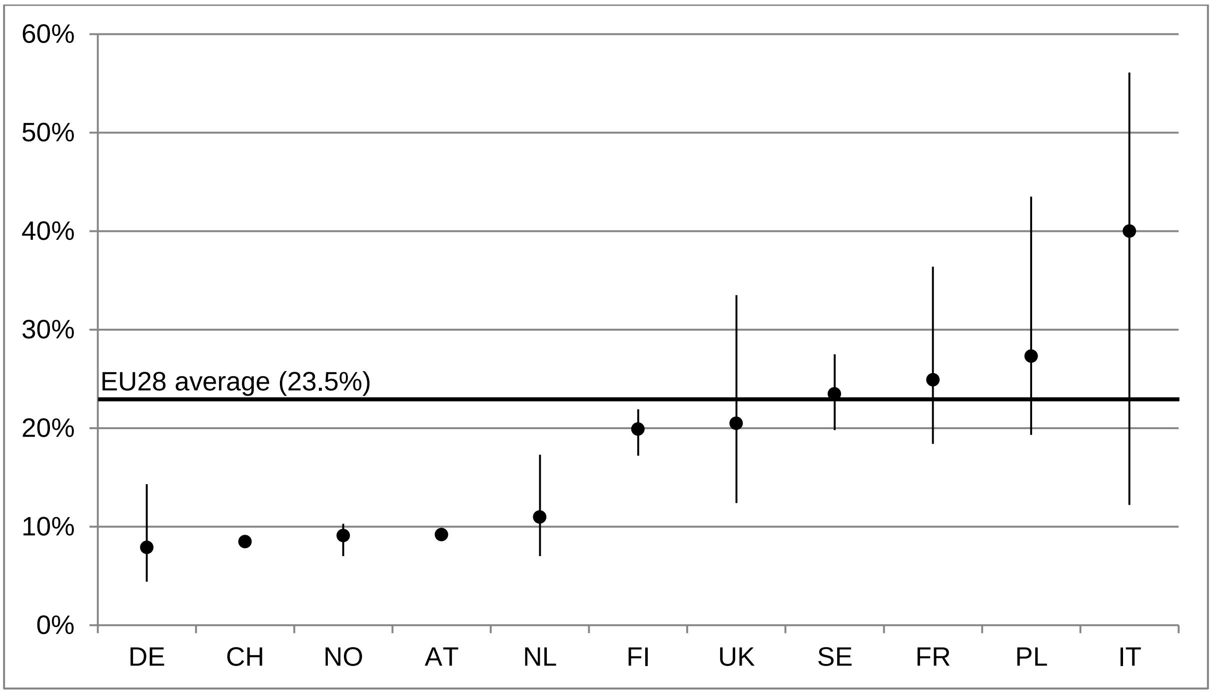


Source: EPRC calculations based on Eurostat data ((ilc_li41 [last updated 01.09.14]).

Notes: (1) Data are not available for Poland, the UK or the EU average. **(2)** The dot shows the national average, and the vertical line shows the range of regional values.

Last, Figure 14 focuses on generational equality. Unemployment rates are higher for young people in all countries, and are above the EU average in ***Sweden, France, Poland*** and, especially, ***Italy***. Regional disparities are particularly high in ***Italy, Poland, the United Kingdom*** and ***France***.

Figure 14: Youth unemployment rates, 2013, national average and regional range (NUTS 2)



Source: EPRC calculations based on Eurostat data (nama_r_ehh2inc [last updated 28.03.14]).

Notes: (1) Data are for the age group 15-24 years. **(2)** Regional data are not available for Switzerland, are very limited for Austria, and show some gaps for Finland, France, Germany, Italy, UK. **(3)** The dot shows the national average, and the vertical line shows the range of regional values.

3. THE STRATEGIC OBJECTIVES OF REGIONAL POLICY

KEY FINDINGS

Many countries have revised the strategic objectives of regional policy in 2013-14, partly prompted by domestic decisions and partly because domestic regional policy is sometimes strongly aligned with EU policy cycles. Change is largely incremental, although there are shifts in emphasis in relation to territorial and thematic objectives.

Regional policies in Europe have a wide range of objectives, which are set out in legal or strategic documents. Objectives are often multi-dimensioned, partly due to the complexity of regional development, but also due to domestic political debates, and the influence of EU Cohesion policy. Nevertheless, a four-way categorisation of strategic objectives can be identified, based on the varying emphasis placed on: reducing economic disparities between regions; tapping the potential of all territories; and the contribution of regions to national growth.

A rebalancing of strategic objectives has taken place in some countries in 2013-14. The influence of the Cohesion policy agenda and the Europe 2020 strategy is reflected in the emphasis on objectives such as innovation/R&D, urban development, energy efficiency, social cohesion, labour market challenges and the quality of governance. This influence is particularly evident in countries where EU funding represents a substantial share of regional policy funding. However, national reviews of regional policy have also prompted a stronger focus on some of these themes, in response to changes in the domestic economy or in political priorities.

3.1 Changing strategic objectives in 2013-14

The period 2013-14 has seen the revision of strategic documents in a number of European countries, either due to domestic decisions or because domestic regional policy is strongly aligned with EU policy cycles. ***Finland*** introduced a new Regional Development Law in 2014, which includes a focus on metropolitan/urban development alongside support for peripheral areas. Elsewhere, regional policy objectives have been revised within broader national documents. ***Norway***'s 2013 Government White Paper emphasises regional competitiveness, support for business, and the functioning of regional/local labour markets. ***Sweden***'s national strategy for growth and attractiveness for 2014-20 includes a focus on developing the attractiveness of locations for investment. In ***France***, regional policy objectives are under review, with the 2013 Government paper and 2014 Budget Law emphasising territorial cohesion, attractiveness and competitiveness.

Other countries incorporate a regional dimension into industrial or employment strategies. Both ***Belgium*** and the ***United Kingdom (Scotland)*** have introduced strategies which mainly focus on industrial development but also include territorial objectives. ***Ireland***'s Action Plan for Jobs was revised in 2014 and notes a commitment to supporting competitive regions.

Many Central and Eastern European countries have revised existing domestic regional development strategies (or national strategies with a strong regional dimension) for 2014-20 (***Czech Republic, Estonia, Hungary, Latvia, Lithuania, Slovakia)***. Among the new thematic emphases are sustainability, employment, polycentric development, living conditions, and public administration.

3.2 Varying approaches to strategic objectives

Regional policy has a wide range of objectives that are set out in legal or strategic documents. In many countries, objectives have been influenced by the broad goals of EU Cohesion policy and, especially in 2013-14, by the thematic goals of the Europe 2020 strategy. In addition, domestic policies focus on different issues in particular territories, leading to multiple regional policy objectives. The proliferation of regional policy objectives means that it is difficult to divide countries into distinct categories. Despite this, there are some common threads and distinctive groups of regional policy objectives across European countries.

- The first concerns a long-standing objective of **addressing the locational or structural disadvantages of lagging regions**. This objective may have a compensatory logic or may see the reduction of regional disparities as important for national economic development and social cohesion.

- The second retains the **focus on reducing regional disparities but also emphasises the need to tap the underused potential of all regions**.

- The third shifts the focus to **tapping the underutilised potential of all territories**. Here, the emphasis is on improving the economic performance of all regions and catalysing the development of new sources of competitive advantage.

- The fourth targets **the contribution of regions to national economic growth** (particularly the main agglomerations), rather than the reduction of regional disparities.

Section 3.2 presents a typology of countries based on these four regional policy strategic objectives. However, there are some important caveats.

- First, most countries have a combination of regional policy objectives. Thus, the categories aim to indicate where the main emphasis lies among these various objectives.

- Second, these categories are based on the objectives stated in official strategic and documents rather than, for example, the range of regional policy interventions that are funded in a particular country.

- Last, the weight placed on specific policy objectives varies over time, responding to domestic circumstances or external forces. Thus Section 3.2 not only notes which specific themes are currently given priority but also includes a brief indication of recent changes.

3.3 Categorising strategic objectives

3.3.1 Reducing economic disparities between regions

A first group comprises countries where regional policy solely aims to reduce regional disparities, and where this goal is set out in the national constitution and/or primary legislation. Two of the countries in this group, ***Germany*** and ***Spain,*** are large, with significant macro-regional differences. The main aim is to reduce the structural and locational disadvantages of weaker regions, with a view to achieving more balanced economic development and equivalent living standards across regions.

Table 1: Countries where the main objective is to reduce economic disparities between regions

Country	Strategy/framework	Recent changes
DE	Regional Joint Task and Solidarity Pact support constitutional goal of ‘equivalent living conditions’	No changes in 2013-14
ES	Inter-Territorial Compensation Fund, Regional Investment Grant follow constitutional commitment to balanced development and solidarity	No changes in 2013-14
CH	Constitution gives federal level role in areas under threat of economic downturn; New Regional Policy based on federal law.	No changes in 2013-14

3.3.2 Reducing regional disparities and tapping the potential of all regions

In the second group, strategic goals related to reducing regional disparities are still present, but in addition policy aims to tap the potential of all regions. In these countries, the objectives of regional policy are to ensure equal living conditions across the country, with a focus on disadvantaged territories, while also developing regional strengths in all parts of the country.

Regional policy objectives in ***Italy*** combine an emphasis on the structural problems of the south with support aimed at revitalising the centre-north. ***Finland***’s regional policy objectives include commitment to address the locational disadvantages of the East and North as well as the competitiveness of other territories, including larger urban areas.

Table 2: Countries with the dual objectives of reducing regional disparities and tapping the potential of all regions

Country	Strategy/framework	Recent changes
FI	2014 Regional Development Law	2014 Law includes focus on metropolitan/urban development alongside support for peripheral areas.
IT	Regional policy objectives in constitution: promote development in all areas; equal economic and social rights.	Crisis reinforces strategic differentiation: South focus on entrepreneurship, governance, human capital; Centre-North on competitiveness and high tech centres.
NO	2013 Government White Paper	2013 White Paper emphasis on regional competitiveness; support for business; labour markets.
PT	Constitutional commitment to cohesion and balanced growth	Cohesion policy stress on competitiveness, internationalisation, employment and social inclusion, efficient use of resources.
SE	New national ‘strategy for growth and attractiveness’ for 2014-20	In addition to priorities on innovation, entrepreneurship, competence and cross border cooperation, the new strategy contains focus on regional attractiveness for inhabitants and business locations.
SI	Balanced Regional Development Act, 2011; strategic objectives mainly set in Cohesion policy.	2014-20 Cohesion policy focus has changed from infrastructure support to innovation, entrepreneurship.

3.3.3 Emphasis on tapping the potential of all regions

In the third group, the main emphasis is on using the potential of all regions, although there may also be a minor focus on reducing regional disparities. These countries typically set the objectives of regional policy in terms of the provision of equal living conditions across the country by supporting economic development in all regions.

This group consists of a wide range of countries. There are countries where objectives combine responses to relatively weak economic performance in some territories with a focus on the potential of other regions. In ***France***, the objective of 'territorial equality' is being pursued alongside support for territorial attractiveness and competitiveness. Also in this grouping are smaller, prosperous countries, notably ***Austria, Belgium*** and ***Denmark*** with limited internal regional disparities. Last, the ***United Kingdom*** (***England*** and ***Northern Ireland***) emphasises support for mobilising the potential of all areas, partly as a means of rebalancing the national economic in geographical, employment and sectoral terms.

Table 3: Countries where the main objective is to tap the potential of all territories

Country	Strategy/framework	Recent changes
AT	Austrian Spatial Development Concept, (STRAT.AT 2020)	Revision of Carinthia *Land* strategic development framework underway.
BE	2011 Government agreement; 2013 Concept Paper: A new step for European Industrial Policy has territorial objectives	2014 Belgium-wide push to pursue the industrial opportunities of becoming less carbon and resource intensive.
DK	Denmark 2020 - knowledge, growth, prosperity, welfare (2010)	Regional business objectives and regional development objectives integrated in 2014.
FR	2013 Government paper, 2014 Budget Law.	New Law and government paper prioritises territorial cohesion, attractiveness and competitiveness, promotes environmental and energy transition.
UK	ENG - Government White papers - 2010: Local Growth: realising every place's potential; 2011: The Plan for Growth 2011 SCO - 2014 Industrial Strategy has territorial objectives; WAL - 2010 Development Strategy - Economic Renewal: A New Direction. NI - 2012 Economic Strategy: Priorities for Sustainable Growth and Prosperity	SCO - 2014 Industrial strategy to rebalance, reindustrialise by strengthening manufacturing, innovation and international trade.

3.3.4 *Emphasis on the contribution of regions to national growth*

In the fourth group, regional policy objectives have a nationwide scope and aim to support national competitiveness. This category consists of countries where the regional dimension is not prominent (e.g. ***Ireland, Luxembourg, Malta, Cyprus,*** *and* ***the Netherlands***) but instead implicit in the aims of national development or sectoral strategies. However, this category also includes countries where the regional dimension is significant but where the emphasis is currently on improving the national situation, even at the expense of widening (short-term) regional disparities. This sub-category contains several ***Central and Eastern European*** EU Member States which have domestic regional development strategies but where Cohesion policy is the main policy driver. The primary focus is on national growth and leading regions rather than on reducing regional disparities. This is not to say that regional disparities are ignored, but strategic documents mainly emphasise the goal of supporting the competitiveness of regions in order to maximise their contribution to national growth.

Table 4: Countries where the main objective is to maximise contributions to national growth

	Strategy/framework	Recent changes
BG	Regional Development Act (2008); National Regional Development Strategy 2012-22.	Recent strategic emphasis on promoting the growth potential of urban areas through polycentric development approach.
CY	Strategic Development Plan 2007-13 provides framework for all development interventions.	Recent focus on inequalities in rural areas.
CZ	Regional Development Strategy 2014-2020.	Sustainability and public administration priorities given more emphasis in new Regional Development Strategy.
EE	Estonian Regional Development Strategy 2014-2020.	Increased stress on polycentric development, role of regional centres, travel-to-work areas.
GR	Mainly Cohesion policy, goal of nationally balanced regional development enshrined in Constitution.	No changes in 2013-14.
HR	Regional Development Strategy of Croatia 2011-13.	No changes in 2013-14.
HU	Act on Regional Development and Spatial Planning (amended 2013); 2014 National and Territorial Development Strategy.	2014 Strategy places more emphasis on competitiveness and employment creation in comparison to predecessor.
IE	Action Plan for Jobs 2014; includes a commitment to supporting competitive regions.	Action Plan for Jobs revised in 2014.
LT	2000 Law on Regional Development; National Progress Programme for 2014-20.	New programme has focus on public administration, quality of life, the living environment of rural areas.
LU	Regional policy largely synonymous with industrial and economic policy.	No changes in 2013-14.
LV	Law on Regional Development (2002); National Development Plan of Latvia 2014–20.	New National Development Plan includes focus on equal living conditions, sustainability.
MT	Regional policy synonymous with economic policy.	No changes in 2013-14.
NL	No explicit framework but implicit in economic policy.	Focus on strategic role of city networks, urban development.
PL	2006 Act on Development Policy (amended 2014); National Strategy for Regional Development 2010-2020.	No changes in 2013-14.
RO	2004 Regional Development Law; strategic objectives mainly set in Cohesion policy.	No changes in 2013-14.
SK	2008 Act on Support for Regional Development; 2014 revision of National Strategy for Regional Development.	Revised National Strategy stresses sustainable, balanced development, higher living standards, environmental quality.

3.4 Recent thematic changes in objectives

Some countries have rebalanced strategic objectives in 2013-14. The alignment of Cohesion policy with the Europe 2020 strategy has led to a stronger emphasis on particular thematic objectives, particularly in ***Central and Eastern European*** Member States where Cohesion policy accounts for a substantial proportion of regional development spending. Several of these countries have launched national/regional development strategies to coincide with the 2014-20 period. However, recent changes in objectives have also been prompted by domestic reviews of regional policy. Taken together, these domestic and external drivers are leading to a stronger focus on the following themes:

- **Innovation/R&D.** Innovation, research and development is an established theme in regional policy but the EU 'smart specialisation' theme has led to a stronger emphasis on public investment in regional R&DI strengths. In ***Central and Eastern European*** countries, the shift in objectives towards support of national economic growth is accompanied by an increased focus on innovation. Nevertheless, these objectives raise important challenges, considering the significant development gaps at both national and regional level in these countries.

- **Energy efficiency and sustainable development. EU** Cohesion policy in 2014-20 marks a shift towards a low-carbon economy, climate change, environmental protection and resource efficiency. These aims are echoed in the regional policies of some countries. In ***France,*** the 2014 Budget Law promotes environmental protection and energy transition as part of its support for territorial cohesion. In ***Belgium***, sustainable development is a prominent part of strategies, with a focus on energy and resource efficiency.

- **Urban development and the role of cities.** Cohesion policy in 2014-20 aims to promote increased funding for urban development and to influence policy at the city level. In parallel, national regional policies in some countries are more strongly emphasising the role of cities in driving growth, sometimes via a strategy aimed at polycentric development (e.g. ***Bulgaria, Estonia, Lithuania, Poland***). In the ***Netherlands***, the Ministry of Infrastructure and Environment is developing a Spatial Economic Development Strategy; a key aim is to identify objectives relating to nationally-important city networks. An Urban Agenda has also been initiated to formulate urban development objectives and the role of central government. In ***Finland***, the government decision for 2011-15 aims to strengthen the competitiveness of the metropolitan areas and to safeguard conditions for larger urban areas. In ***Switzerland***, there are strategic discussions on the thematic scope of agglomeration policy and its link to the New Regional Policy.

- **Well-being and social cohesion.** Both Cohesion policy in 2014-20 ('inclusive growth') and the national regional policies of some countries are placing fresh emphasis on social cohesion. A government report presented in ***France*** in 2013 highlighted the objectives of 'territorial justice', 'and emphasised the importance of equal living conditions and adequate provision of public services across all regions. In ***Malta***, the development strategy for Gozo outlines the objective of enhancing quality of life and ensuring sustainable development.

- **Labour market.** A specific focus on employment has emerged in some countries. For instance, in ***Norway***, the recent focus on labour market issues reflects demographic trends, a reappraisal of the contribution of different regions to growth, and of the functioning of local labour markets in a knowledge-based economy. Another concern is the mismatch between labour/skills supply and demand. In the ***United Kingdom*** (England), the Regional Growth Fund has the objective of 'rebalancing growth' by addressing labour market issues in areas that have suffered as a result of the crisis.

- **Governance, administrative capacity**. Last, regional policy may include objectives relating to the strengthening of governance or administrative capacity. This is due to the increased Cohesion policy focus on the effectiveness of regional policy and reform of the public administration (especially in ***Central and Eastern European*** countries), as well as constraints on public spending in some countries. In ***Italy***, the strategic emphasis on addressing the South's structural weaknesses includes capacity-building in the public administration.

4. REGIONAL POLICY FUNDING

KEY FINDINGS

Reliable comparative data on regional policy financial allocations and expenditure are limited.

Cohesion policy funding allocations (relative to national GDP) are stable in most wealthy countries in 2014-20 but show a reduction in a number of poorer countries, partly because of increases in these countries' GDP over the past decade but also because a lower proportion of the total Cohesion policy package is being allocated to the poorest countries and regions in 2014-20.

Regional aid expenditure varies across countries and there is no clear link between national prosperity and the level of regional aid as a percentage of GDP in 2010-12.

The **two key sources of comparable data on regional policy funding across European countries** are, first, Cohesion policy allocations and, second, annual State aid reports by DG Competition and the EFTA Surveillance Authority. Within-country estimates of regional policy spending are based on national sources and definitions, so that the data produced are not comparable across countries. Even within individual countries, it can be difficult to demarcate regional policy from other funding streams, as well as to avoid double-counting because many instruments are co-funded from various EU and domestic sources.

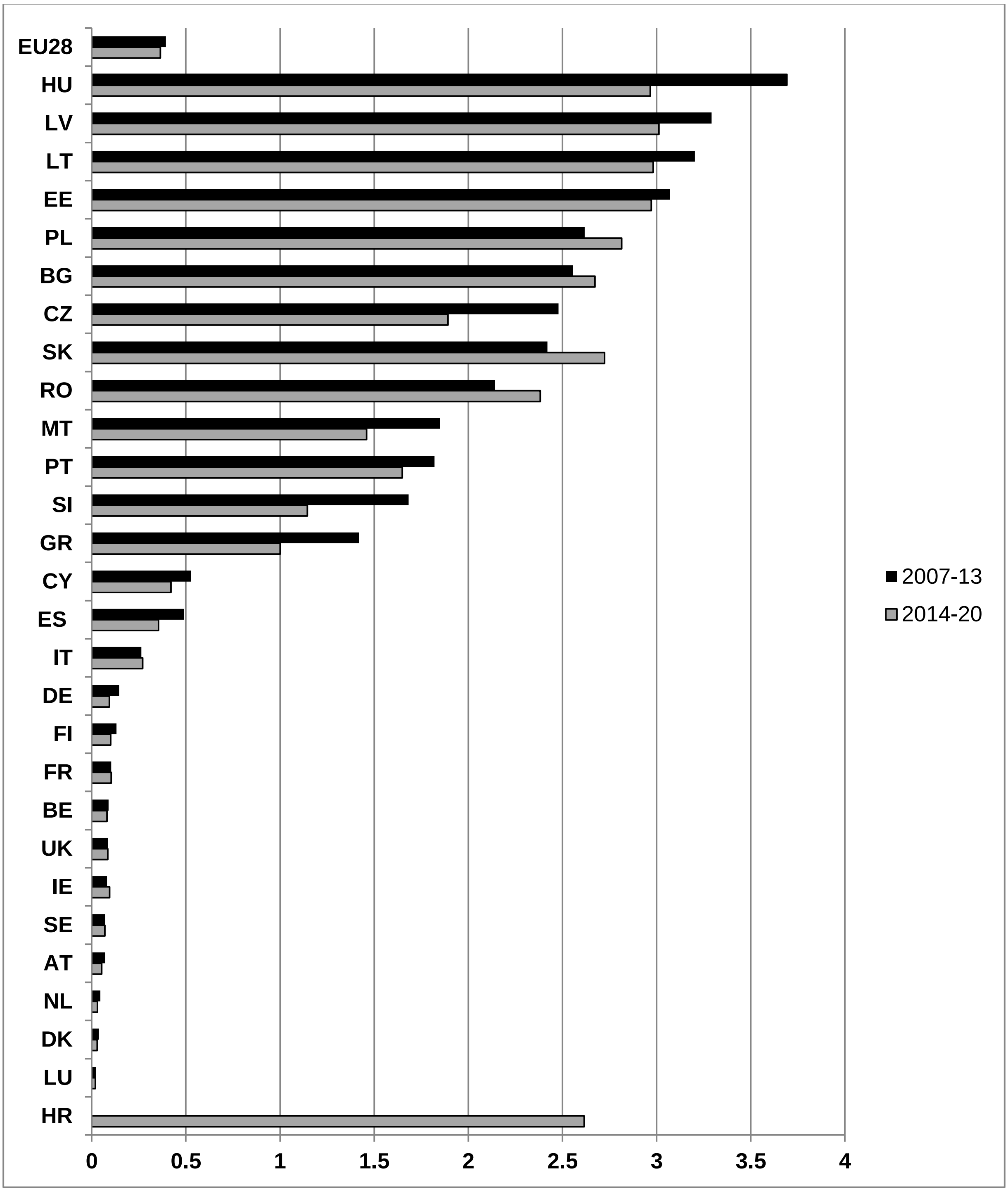
4.1 Cohesion policy allocations

Cohesion policy is a significant source of funding for national and regional development in poorer EU Member States and also locks in domestic public expenditure for particular types of intervention via domestic co-financing requirements. Even in medium or wealthier countries, Cohesion policy can play an important role in supporting specific categories of public spending, especially in poorer regions.

Nevertheless, as Cohesion policy funding is allocated to all regions, there is variation in the degree to which funding is targeted on regions or areas which are regarded as structurally weaker from a national perspective (especially in countries where most regions fall into the same EU regional category).

Figure 15 compares levels of Cohesion policy indicative allocations in 2007-13 and 2014-20, and shows annual average allocations in 2011 prices, as a percentage of 2011 GDP. It shows that **funding allocations to a number of poorer countries are lower in 2014-20, relative to GDP**, partly because of increases in these countries' GDP over the past decade, and also because a lower proportion of the total Cohesion policy package is being allocated to the poorest countries and regions in 2014-20.

Figure 15: Cohesion policy annual indicative allocations in 2007-13 and 2014-20 (as % of GDP)



Source: EPRC calculations based on European Commission data.

Note: Data are calculated as annual average figures in constant 2011 prices, as a percentage of 2011 GDP, with all data in euros.

Table 5 divides EU Member States into groups, depending on the level of Cohesion policy annual average allocations in 2007-13 and 2014-20.

Table 5: Cohesion policy allocations in 2007-13 and 2014-20 (% of GDP)

	2007-13	2014-20
3.5-4.0%	Hungary	
3.0–3.5%	Estonia, Latvia, Lithuania	Latvia
2.5-3.0%	Bulgaria, Poland	Bulgaria, Croatia, Estonia, Hungary, Lithuania, Poland, Slovakia
2.0-2.5%	Czech Republic, Romania, Slovakia	Romania
1.5-2.0%	Malta, Portugal, Slovenia	Czech Republic, Portugal
1.0-1.5%	Greece	Greece, Malta, Slovenia
0.5-1.0%	Cyprus	
0.1-0.5%	Finland, France, Germany, Italy, Spain	Cyprus, Finland, France, Italy, Spain
<0.1%	Austria, Belgium, Denmark, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom	Austria, Belgium, Denmark, Germany, Ireland, Luxembourg, Netherlands, Sweden, United Kingdom

Source: EPRC calculations based on European Commission data.
Note: Annual average allocations in constant 2011 prices, as a percentage of 2011 GDP, with all data in euros.

Data on annual average allocations as a percentage of GDP show that there is strong **continuity in Cohesion policy funding levels in wealthier Member States** in 2014-20:

- Most wealthier countries are experiencing a very small fall in funding levels (less than 0.05 percentage points of GDP) in ***Austria, Belgium, Denmark, Finland, Germany, Luxembourg, the Netherlands, Sweden*** and the ***United Kingdom***,
- Some wealthier countries, however, are seeing a very small increase in funding (less than 0.05 percentage points of GDP) in ***France, Ireland*** and ***Italy***.

By contrast, the picture varies considerably for poorer and medium countries, with an increase in a minority of countries but **falls in Cohesion policy funding in most poorer Member States**:

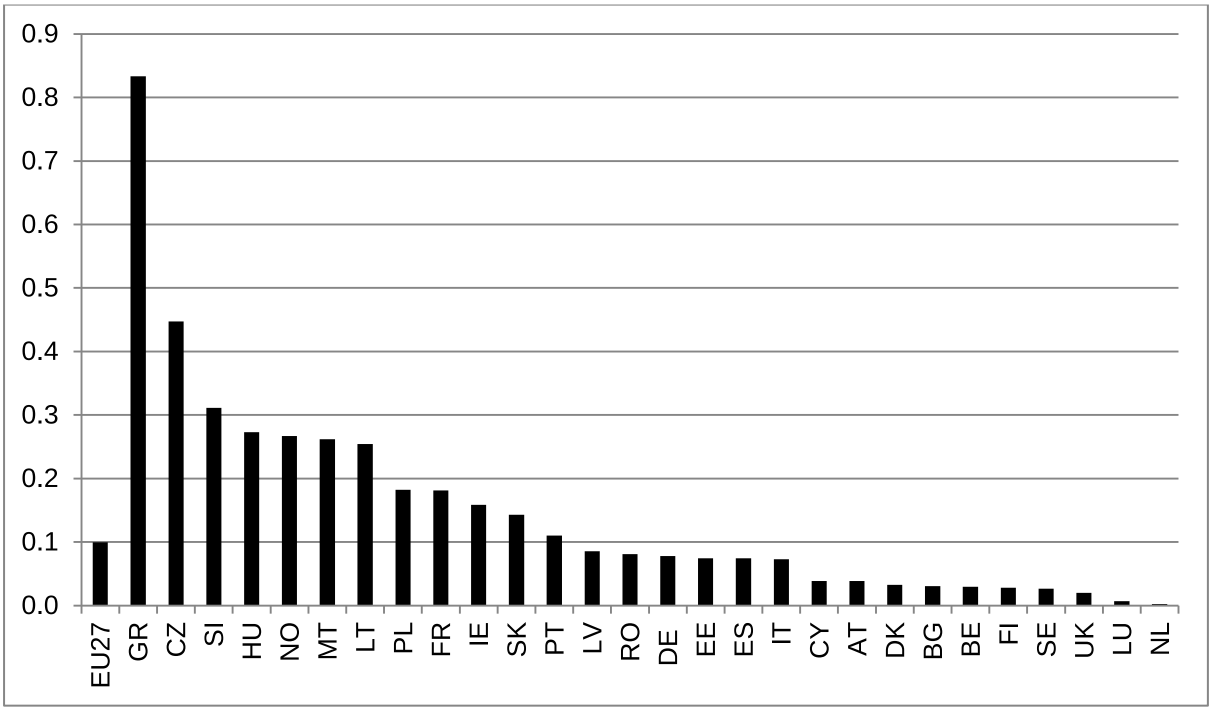
- Funding levels are increasing in some poorer countries (by 0.1-0.3 percentage points of GDP), namely ***Bulgaria, Poland, Romania,*** and ***Slovakia***, as well as ***Croatia***,
- Others are seeing a limited reduction in funding (0.05-0.25 percentage points of GDP), namely ***Cyprus, Estonia, Lithuania, Portugal*** and ***Spain***,
- The reduction is stronger elsewhere (0.25-0.5 percentage points of GDP), notably in ***Greece, Latvia*** and ***Malta,***
- The largest reductions (0.5-0.75 percentage points of GDP) are in the ***Czech Republic, Hungary*** and ***Slovenia***.

4.2 Regional aid expenditure

The second key indicator is regional aid spending as a percentage of GDP. Figure 16 shows that regional aid was below one percent of GDP in all EU Member States in 2010-12 and extremely low in, for example, ***Luxembourg*** and ***the Netherlands***. Clearly, this information relates only to public expenditure which is defined as regional aid, rather than to other forms of regional policy spending (e.g. some types of infrastructure investment, some SME aid, and bottom-up interventions).

There is, moreover, a need to treat the data with caution because no information is available on which schemes are included in the data. It is also unclear whether data refer solely to domestic expenditure or also include EU Cohesion policy co-financing. Further, there may be variation between countries (and, indeed, schemes) in terms of whether data include actual expenditure, budget allocations or estimates.

Figure 16: Regional aid as a percentage of GDP, 2010-12



Source: EPRC calculations based on European Commission and EFTA Surveillance Authority data.

The regional aid expenditure data can be used to divide countries into five categories. The data show, however, that there is **no clear correlation between a country's overall level of prosperity and the extent of regional aid as a percentage of GDP** in 2010-12:

- The highest levels of regional aid are seen in the ***Czech Republic, Greece*** and ***Slovenia*** (0.3-0.9 percent of GDP),
- Levels are also relatively high in ***Hungary, Lithuania*** and ***Malta*** (0.1-0.3 percent),
- Spending levels are limited in ***France, Ireland, Poland, Portugal*** and ***Slovakia*** (0.1-0.2 percent),
- Aid is lower (0.05-0.1 percent of GDP) in some wealthier (***Germany***) and medium countries ***(Italy*** and ***Spain***) but also in poorer Member States (***Estonia, Latvia*** and ***Romania***),
- Levels are lowest (less than 0.05 percent of GDP) in a mix of wealthier (***Austria, Belgium, Denmark, Finland, Luxembourg, the Netherlands, Sweden*** and the ***United Kingdom***), medium (***Cyprus***) and poorer (***Bulgaria***) countries.

5. THE GEOGRAPHICAL FOCUS OF REGIONAL POLICY

KEY FINDINGS

The role of EU frameworks in the spatial targeting of regional policy varies across countries. Regional aid population coverage plays a discriminating role in around half of Member States, while Cohesion policy has a strong role in spatial targeting in slightly more than one third of Member States.

Regional policy support continues to be mainly focused on lagging areas, which often cumulate a number of weaknesses. At the same time, policies increasingly target areas with potential, notably urban areas and industrial zones, and there has been a shift towards supporting high-value sectors under mainstream regional aid.

Recent change mainly relates to greater emphasis placed on areas faced with structural weaknesses, high levels of unemployment and/or structural change. In some countries, the targeting of long-standing policies is being reassessed against the background of new emerging disparities.

The main defining feature of regional policy is its geographical dimension, and policy strategies and initiatives are, in principle, designed to address regional disparities. EU frameworks for Cohesion policy and regional aid play an important role in steering the spatial orientation of regional policy in EU countries (and, in the case of regional aid, in Norway) and are leading to important changes in some countries in 2014-20 (Section 6.1). Against this background, policy-makers target support at different types of area(s). Policies are still being updated in a number of countries (Section 6.2).

5.1 The role of EU frameworks in guiding spatial targeting in 2014-20

EU policy frameworks play an important role in shaping regional policy across the board, but their influence on the spatial orientation of interventions varies across countries. This depends on the level and type of population coverage and differentiation in aid intensities and funding levels. At the same time, their role is non-existent in Switzerland, where policy is purely domestic.

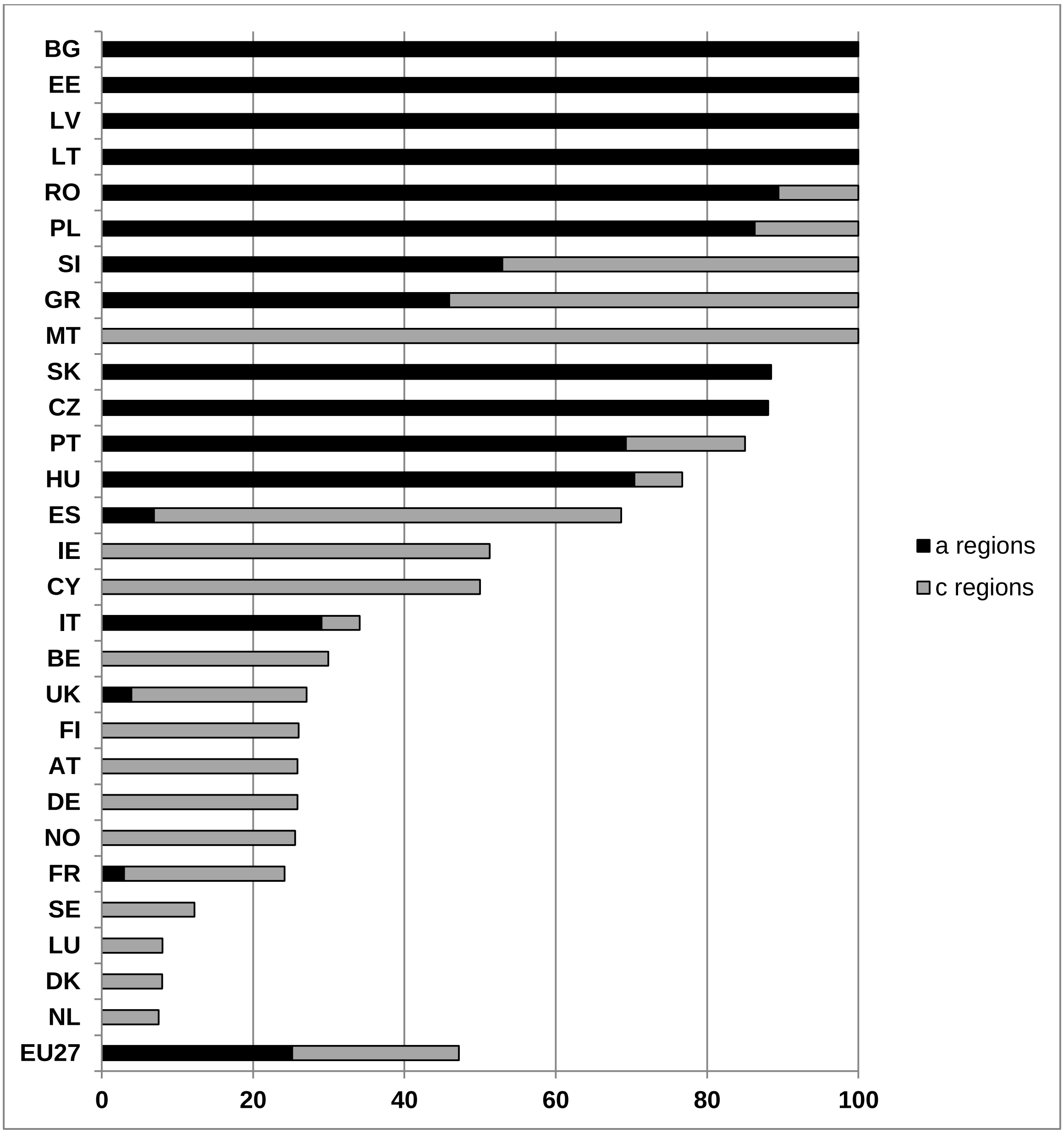
The EU **Regional Aid Guidelines have significant implications for spatial targeting in the case of measures involving State aid in around half of EU Member States** with a population coverage between 15 and 85 percent (***Austria, Belgium, Cyprus, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Norway, Slovenia, Spain*** and the ***United Kingdom***) (see Figure 17). Targeting is influenced less in:

- countries with a population coverage above 85 percent, although there is variation in aid intensities in most countries:
    - ***Estonia, Latvia, Lithuania, Malta*** are fully covered by the map and the same aid intensity applies across the country;
    - ***Bulgaria*** is fully covered by Article 107(3)(a), but aid intensities are lower in the capital region; in ***Croatia***, different aid intensities apply to the NUTS 2 regions (despite a minimal difference in GDP/capita);

- in the ***Czech Republic, Poland*** and ***Romania*** the capital regions (and sometimes surrounding areas) have a different status, but aid ceilings are the same across Article 107(3)(a) areas;
- in ***Slovakia***, the capital region is excluded from the regional aid map and aid intensities are lower in the West of the country; and
- ***Portugal*** is largely covered by Article 107(3)(a) areas, with higher aid intensities in the outermost regions;

- countries with a population coverage below 15 percent (***Denmark, Luxembourg, the Netherlands*** and ***Sweden*** (although in Sweden this is spread across a significant part of the territory).

Figure 17: Regional aid map coverage in 2014-20 (% of population)



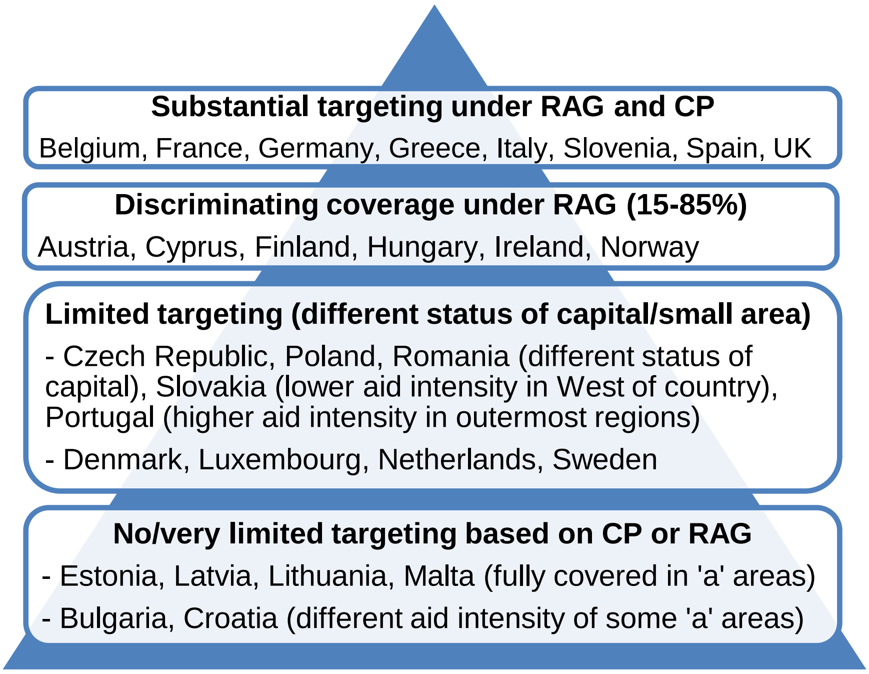
Source: EPRC calculations based on European Commission data.

EU Cohesion policy plays a strong role in spatial targeting in slightly more than one third of Member States with different types of regions (Less-Developed, Transition and/or More-Developed): ***Belgium, Germany, France, Greece, Italy, Slovenia, Spain*** and the ***United Kingdom***. Most other countries:

- are entirely covered by Less-Developed Region(s) (***Bulgaria, Croatia, Cyprus, Estonia, Latvia, Lithuania, Malta***), or More-Developed Region(s) (***Denmark, Finland, Ireland, Luxembourg, Netherlands, Sweden***); or
- are relatively homogenous, because only the capital region has a different status (***Czech Republic, Hungary, Poland, Romania, Slovakia***), or because the share of the country covered by a different type of region is relatively small (***Austria, Portugal***).

The degree of targeting imposed by EU frameworks is illustrated by Figure 18, which shows that targeting is relatively limited for half the countries under review.

Figure 18: Spatial targeting of regional policy - external factors in 2014-20: Regional Aid Guidelines (RAG) and Cohesion Policy (CP)



Compared to 2007-13, the 2014-20 period introduces significant changes in area designation under the Regional Aid Guidelines and/or Cohesion policy, in particular for (see 19):

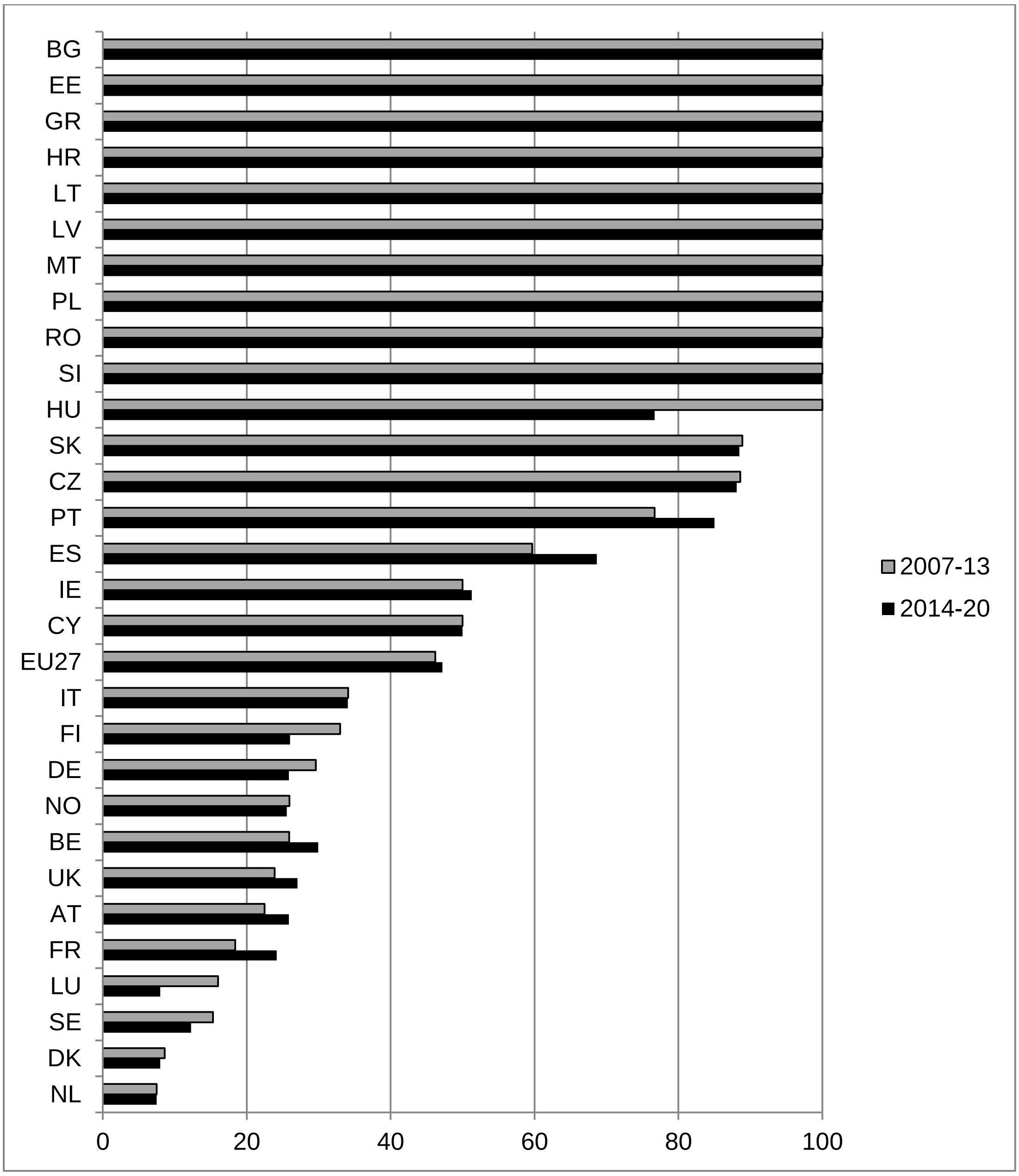
- capital regions in ***Hungary, Poland, Romania*** and ***Slovenia*** which have either lost assisted area status or have been downgraded and, in Poland and Romania, are now More-Developed Regions (in Hungary, the capital region was already an RCE region in 2007-13);

- a number of structurally weaker regions in ***Germany'***s East and in ***Spain***, which moved from Convergence to either Transition or More-Developed status (and the reduction of Cohesion policy funding in Germany also means that there will be no ERDF OP for Transport Infrastructure in the eastern *Länder* in 2014-20); although there is no longer any Article 107(3)(a) coverage in Germany, regional aid map coverage in Spain increased;

- significant losses in aid areas and/or Cohesion policy allocations of around 20 percent in ***Finland*** and ***Sweden*** (and in Sweden, the only aid areas are now sparsely populated areas); Finland also receives significantly less Cohesion policy funding than in 2007-13, and Structural Funds support for regions facing structural change will be discontinued; while ***Austria*** also faces losses in Cohesion policy allocations, its aid map coverage has increased;

- ***France*****,** which sees an increase in existing aid area coverage of over 30 percent as well as a number of its regions moving from RCE to Transition status.

Figure 19: Total aid map coverage in 2007-13 and 2014-20 (% of population)



Source: EPRC calculations based on European Commission data.

Note: Totals show combined population coverage for Article 107(3)(a) and (c).

Where no or only limited targeting is imposed by the Regional Aid Guidelines or under Cohesion policy, there is scope to introduce some degree of targeting through

- higher aid rates based on unemployment rates (***Lithuania*** (2007-13), ***Poland***, ***Slovakia***);
- additional support under Cohesion policy earmarked for lagging areas (***Bulgaria, Croatia, Czech Republic, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania*** (foreseen), ***Malta, Poland, Sweden***);
- the use of space-sensitive criteria during project selection, e.g. via preferential treatment for applicants from certain zones during project selection (***Hungary*** (2007-13), ***Latvia, Lithuania*** (foreseen)); and
- the exclusion of larger towns from some of the support in ***Estonia*** – here, unified aid rates have been introduced after using a differentiated approach with lower aid intensity in the capital region in 2007-13.

Additional maps are in place in some countries and support is partly linked to or overlaps with the assisted area map. In ***Germany***, a map of so-called 'D' areas is used for structurally weaker areas that do not qualify as Article 107(3)(c) areas (mostly located in the western *Länder* and Berlin), and in ***France***, preferential treatment is available in 'rural renewal zones'. In ***Hungary***, domestically-driven support was provided to a list of 'least-developed micro-regions' in 2007-13, which is currently being revised.

5.2 Types of geographies and recent developments

To get an overview of different types of target areas, this section looks at the main characteristics used by policy-makers to channel support. Problem areas often cumulate a number of weaknesses (sparse population, out-migration, high unemployment…), and the complex challenges faced by these areas need to be considered in the context of each country. Depending on the nature of regional disparities, supported areas vary significantly in terms of their size, ranging from macro-regions (***Germany, Spain, Italy, Finland, Poland, Norway*** and ***Sweden***) to smaller areas at the sub-regional level (***Slovenia, France***). In a number of countries, additional targeting for problem areas is decided at a sub-national level (e.g. ***Czech Republic, Denmark, France, Germany***).

5.2.1 Lagging areas continue to be the main focus of regional policies

Across Europe, different types of lagging areas are addressed, some due to their geographical specificities, but others mainly because of their weaker economic performance (see also Table 6). Those with geographical characteristics, such as remoteness, sparseness of population or rural areas often receive long-standing support, while changes are more frequent in areas with economic weaknesses (e.g. high unemployment rates, structural change):

- An important category relates to **structurally weak areas**. Countries with long-standing support measures include ***Austria, Italy, Poland*** and ***Switzerland***. There is a debate in ***Germany*** as to whether specific instruments are still needed solely for the eastern *Länder*, or whether efforts should be targeted on structurally weaker regions throughout Germany (compared to 2007-13, a slightly lower share of funding is earmarked for the eastern *Länder* under the main regional policy instrument). New measures are being introduced in the ***Czech Republic***, while support will be increased in ***Estonia*** and further integrated in ***Hungary***. In ***Bulgaria, Czech Republic*** and ***Belgium (Flanders***), ITIs will be used to assist this type of area in 2014-20.

- Areas with **high unemployment rates** are receiving greater attention. The unemployment rate is a criterion for channelling aid in ***Bulgaria, Czech Republic, Lithuania*** and ***Slovakia***. More recently, targeted support was launched in ***Belgium***'s Brussels-Capital region, and new temporary measures have been introduced in ***Slovenia*** to support particularly affected municipalities. There are discussions in ***Sweden*** as to whether a reallocation of resources is needed from the northern regions to those regions that are faced with rising unemployment.

- In many countries, assistance is provided to **lagging rural areas**. They are specifically targeted in ***Poland*** through dedicated Structural Funds support to its Eastern region; in addition, all regional Operational Programmes are required to set aside funding for rural development in 2014-20. In ***France***, long-standing support has been available to 'rural renewal zones'; these are currently under review and one option is to increase targeting on areas most in need. In ***Portugal***, a new focus has been placed on areas in the interior of the country facing out-migration to the centres of activity around the capital as a consequence of the crisis.

- Certain categories of area are defined in the EU Treaty on the Functioning of the European Union, namely **outermost regions**[16] and **sparsely populated regions**,[17] with implications for the Regional Aid Guidelines and the EU regulations on Cohesion policy.

- **Areas affected by structural change** are also assisted in some countries, with targeted measures in place in ***Finland*** and ***France*** to support areas suffering from the consequences of firm closure (and, in Finland, the new aid map includes the Salo sub-region following unprecedented job losses after the restructuring of the Nokia plant). In the ***Netherlands***, the regional aid map was also revised to address structural change in the Groningen province and an action plan has been developed. New measures are also being introduced in ***Belgium (Flanders)*** and the ***Czech Republic***.

- There are a number of **other issues** that can hamper development. Regions located in areas bordering non-EU countries are prone to higher levels of out-migration and poverty. These receive particular support in ***Estonia, Latvia*** and ***Poland***. In the case of ***Croatia***, problems are also linked to the impact of the war in the early 1990s. Authorities in the ***Czech Republic*** target former military areas and areas affected by natural disaster and severe environmental problems. In ***France***, successive measures have also been put in place to alleviate the impact of cutbacks in the military sector. In ***Italy***, parts of the Abruzzi affected by the earthquake have been receiving aid under schemes available in the assisted areas in 2013-14.

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[16] European Union (2012) *Consolidated version of the Treaty on the Functioning of the European Union*, OJ C 326, 26.10.2012, pp. 47–390, Article 349.

[17] European Union (2012) *op. cit.* Article 174.

Table 6: Main types of lagging areas targeted by regional policies

	Structural Change	Structural weakness	High unemploy-ment	Lagging / remote rural areas	Sparsely populated areas	Outermost regions	Other
AT		■		■			
BE	■	■	■				
BG		■	■				
CH		■		■			
CY				■			
CZ	■		■	■			■
DE		■					
DK				■			
EE		■		■			
ES		■		■	■	■	
FI	■				■		
FR	■			■		■	■
GR		■		■	■		
HR				■			■
HU		■	■	■			■
IE							■
IT		■					■
LT			■				
LU	■						
LV			■	■			
MT				■			
NL	■		■				
NO					■		
PL	■	■					■
PT		■		■		■	
RO							
SE					■		
SI			■				■
SK			■				
UK				■	■		■

Notes: (1) The category 'Other' includes border areas, areas formerly used by the military, affected by war, natural disaster, environmental problems or areas with ethnic/language minorities. **(2)** Sparsely populated areas are those included in this category under the 2014-20 regional aid map, while outermost regions are those defined in Article 349 of the Treaty on the Functioning of the European Union.

5.2.2 …in addition, regional policies increasingly target areas with potential

Policy-makers increasingly consider **urban areas outside the capital region** as a focus of regional policy, often linked to strategies of polycentric development (e.g. ***Poland, Romania***). In 2013-14 there has been a renewed emphasis on different types of urban areas in ***Norway*** and ***Switzerland.*** In ***Finland***, the Innovative Cities ('INKA') Programme was launched in 2014, building on growth agreements concluded between the Government and the cities. The aim is to promote innovative cities in cooperation with State authorities, research institutes, businesses and local authorities in future-oriented sectors. In Bulgaria and Lithuania, polycentric development will be given significant emphasis in 2014-20 in order to support weaker urban areas:

- In ***Bulgaria***, the aim is to stimulate sustainable urban development based on integrated urban regeneration and the development of 67 designated towns, and therefore to improve quality of life and retain population in local towns and cities;
- In ***Lithuania,*** the National Progress Programme for 2014-20 defines three types of urban areas: (i) the five main cities, but specifically areas within these cities which are unattractive and deprived but are also functionally linked to the city centre and have potential to become a sub-centre; (ii) towns with a population of 6,000-100,000, selected based on population change, number of start-ups per capita, and share of employees in construction, manufacturing and the primary sector; and (iii) towns with 1,000-6,000 inhabitants, selected based on criteria defined by the regional development councils.

Moreover, certain countries provide **support to industrial zones**. Preferential treatment of selected economic zones and free ports in ***Latvia*** was extended, and is also likely to continue in ***Lithuania***. Similarly, a decision was taken in ***Poland*** to continue support provided to Special Economic Zones until 2026 (although there is a debate over whether incentives in Special Economic Zones should be phased out in the longer term). Across the ***United Kingdom***, Enterprise Zones were recently reintroduced, partly focusing on areas lagging in terms of their economic development (England) or structurally weaker areas (Scotland).

More generally, there are examples of countries where the focus of investment aid is shifting from areas undergoing territorial restructuring towards support for ‘high-value’ sectors and innovation, notably in ***Norway*** and ***Poland***. Similarly, there are indications that areas with high potential to contribute to economic growth and job creation will receive greater attention under regional aid schemes in ***Lithuania.***

6. REGIONAL POLICY INSTRUMENTS

KEY FINDINGS

Regional policy involves a mix of instruments, ranging from relatively standard forms of business investment and employment support and business-oriented infrastructure, to more complex interventions delivered through integrated development packages and support for bottom-up development. Mechanisms aimed at enhancing quality of life and public services in weaker areas are often important in terms of the funding involved and their redistributive effects.

Recent change remains limited in a group of countries, especially in the EU15, but a number of Member States are still reviewing and developing policy instruments, notably in preparation for the 2014-20 period. Where schemes are continued, this is often underpinned by positive evaluation findings. Other schemes have been adjusted for various reasons, e.g. to make support more strategic, to promote small firms, to reduce the administrative burden and to enhance capacity-building. New schemes have also been introduced, mainly in order to stimulate job creation. At the same time, some measures have been closed, partly due to negative evaluation findings.

There is a wide range of regional policy instruments across European countries. They vary in terms of their geographical targeting (which can be wider or narrower), their time frame (longstanding versus temporary) and their content (harder versus softer measures). Over time, the mix of instruments has been extended beyond traditional aid instruments, and most countries use a combination of instruments of different scale and at different tiers of government (see Section 6.1). The past 18 months have seen reviews of policy instruments, notably in line with EU requirements for the 2014-20 period. The review process is still continuing in a number of countries; nevertheless, some preliminary trends can be identified (see Section 6.2). Further information on individual instruments is provided in the Instrument Tables accompanying this Overview Report and in the individual Country Reports.

6.1 Typology of regional policy instruments

The following typology gives an overview of the main regional policy instruments used across Europe, illustrated by country examples. It also includes information on the underlying rationales for using the different types of instruments in structurally weaker regions, as well as on potential implementation difficulties. It provides details on the following instrument types: (i) relatively standard forms of **business support** and (ii) aid for **business-oriented infrastructure**; (iii) more complex interventions in the form of **support packages** and (iv) **support for bottom-up development**; as well as (v) mechanisms aimed at enhancing **quality of life and public services** in weaker areas.

6.1.1 Business support

The main category relates to support provided to individual businesses (see Table 7). Measures vary as to their overarching objective (investment, job creation…), the incentive chosen (grants, loans, tax allowances…) and the targeting at different areas and types of firms. Some of the schemes are available across the country but offer better conditions in assisted areas (e.g. ***Bulgaria, Finland, France, Italy***) and many combine different forms of support.

Table 7: Business support – Types of instrument and country examples

Instruments	Country examples	Rationale	Potential difficulties / risks
Business investment	- Investment grants (most of EU15, except NL), many CEE - Tax relief on investment (BE, BG, CH, CZ, FR, GR, HU, IT, LU, LV, MT, SK) - Other forms of tax relief (BE, CZ, FR, GR, LT, LV, NO, PL, UK) - Subsidised loans/interest rates (AT, CZ, DE, DK, FI, FR, IT, NO, PT, SE, UK) - Loan guarantees (BE, DE, FI, IT, SE, UK) - Equity instruments (DE, FI, IT, NO, SE, UK)	Capital stock and business investment are typically lower in structurally weaker regions	- Constraints of EU competition policy (esp. aid to large firms) - Public funding (less for interest rate subsidies and guarantees) - Other conditions need to be 'good enough' to attract investment - Deadweight effects - Crowding-out of private investors - Equity instruments: administrative costs, appropriateness - Tax measures: lack of transparency over costs & benefits
Job creation & skills	- Wage subsidies (majority of EU member states) - Tax relief on job creation (BE, BG, FR, IT) - Social security concessions (BE, BG, NO, RO, SE, SK) - Training support (BE, BG, CZ, DE, EE, HR, LT, MT, NO, PT, SE, UK) - Consultancy grants/vouchers (DE, IT, SE) - Support with/ simplification of administrative procedures (BG, IT, PL, UK)	Employment rates are typically lower in structurally weaker regions ; jobs are typically lower skilled in structurally weaker regions	
Start-ups & SME expansion	- Investment grants, interest rate subsidies, guarantees (BE, CH, CY, CZ, DE, FI, GR, HU, IT, LV, MT, PT) - Packages of aid and advice (CY, DE, LU, SE) - Support for self-employment (GR, HU, IT, LU) - Consultancy, training (IT, PT)	Funding and mentoring/ advice can support entrepreneurship and SME expansion in structurally weaker regions; micro-loan funds can support growth of self-employment (e.g. shift out of unemployment)	- Availability of public funding - Crowding-out of private sector funding - Deadweight effects - High administrative costs for instruments involving mentoring/ advice
RTDI and innovation	- RTDI projects (CY, DE, EE, GR, HR, HU, IT, LT, LV, NL, PT, SE, SK) - R&D infrastructure (DE, LT) - Technology transfer, innovation vouchers… (DE) - RTDI networks of researchers and firms (CH, DE, DK) - Innovation assistants (DE) - Cluster initiatives (BE, DE, FR, NL)	RTDI is an important driver of productivity growth and is typically weaker in structurally weaker regions	- Availability of public funding - Deadweight effects - Low demand, questions over appropriateness - May not be the most efficient use of R&D spending - Inherent risk of R&D projects - High administrative costs of tech. transfer
Reducing obstacles to exporting	- Business transport costs in peripheral areas (FI, GR, HR, MT, NO, SE, UK) - Transport infrastructure (ES, FR, IT, NO) - Grants to attend trade fairs (DE, PT, SE) - Consultancy (e.g. market research) (UK)	- Can help retain/attract businesses in periphery by lowering costs - Improvements in transport infrastructure can reduce trade costs and/or increase the scale of local product or labour markets - Grants to attend trade fairs etc. can encourage SMEs to export	- Constraints of EU competition policy (on export aid and transport aid) - Availability of public funding (business transport costs and infrastructure) - Deadweight effects (transport costs) - Improved transport infrastructure can increase competition for local producers

6.1.2 Business-oriented infrastructure

Linked to direct business support, business-oriented infrastructure is a prerequisite for businesses to access supply chains and markets. In addition, good-quality general infrastructure helps to attract and retain human resources (see Table 8).

Table 8: Business-oriented infrastructure – Types of instrument and country examples

Instruments	Country examples	Rationale	Potential difficulties
Business-oriented infrastructure (incl. ICT)	BG, CH, DE, EE, FR, HR, IT, LT, NL, NO, UK	- Infrastructure is often poorer in structurally weaker regions – and can affect firms' investment decisions and competitiveness - Local infrastructure matters for quality of life	- Depends on large-scale public funding - EU Competition following Leipzig-Halle - EU Cohesion policy 2014-20 negotiations
(Major) public infrastructure	EE, FR, IT, ES		
Local infrastructure in weaker areas	AT, BG, CZ, EE, FR, HR, LV, NO, RO, SK, UK		

6.1.3 Packages of support for regional economic development

Support under this category ranges from long-standing support for weaker areas (as in ***Italy, the Netherlands*** or ***Poland***) to temporary measures aimed at alleviating the consequences of a localised crisis situation (e.g. ***Czech Republic, Finland, France, Slovenia***) (see Table 9).

Table 9: Support packages – Types of instrument and country examples

Instruments	Country examples	Rationale	Potential difficulties
Packages for areas with specific difficulties (e.g. aid, retraining, local infrastructure)	- high unemployment areas (BG, SI) - border areas (HR, SI) - areas facing job losses (FI) - former military zones (CZ, FR)	Can allow for a coherent, multi-faceted response to the development problems of particular regions	- May depend on ad hoc political decisions to allocate mainstream public funding to specific places (vs no new additional funding) - Design and implementation depend on effective coordination between different organisations and policy fields
Strategies for specific structurally weak regions with additional funding	- IT: Fund for Development & Cohesion - NO: Action Zone - NL: Compensation Fund - PL: OP for Eastern regions - BE, BG, CZ (ITIs)		
Strategies for specific structurally weak regions but no dedicated funding	- FI: North and East - RO: Danube Delta - EE: Ida-Viru County		

6.1.4 Support for bottom-up development

A number of countries provide additional support to help sub-national or sub-regional actors build capacity to develop and implement a range of developmental measures (see Table 10). Some of these interventions are administered in cooperation with the central State (e.g. ***Bulgaria, Finland***); in other cases, significant responsibilities are delegated to bodies on the ground (***Germany, United Kingdom***).

Table 10: Support for bottom-up development – Types of instrument and country examples

<table>
<tr><th>Instruments</th><th>Country examples</th><th>Rationale</th><th>Potential difficulties</th></tr>
<tr><td>Support for medium-sized towns (polycentric development)</td><td>BG, IE, LT, PL, RO</td><td rowspan="5">- Structurally weaker regions typically lack the social capital, networks and capacities that facilitate economic development
- Mostly only limited funding is needed to act as a catalyst</td><td rowspan="5">- Building social capital takes a long time and involves cultural and institutional change
- Social capital also depends on economic development (e.g. people who gain new capacities may leave structurally weaker regions if there are few jobs)</td></tr>
<tr><td>Support for bottom-up strategies or projects</td><td>AT, CH, DE, FR, HR, NO, PT</td></tr>
<tr><td>Funding to set up/run local/regional agencies</td><td>AT, CH, DE, UK</td></tr>
<tr><td>Regional strategic partnerships</td><td>DE, DK, SE</td></tr>
<tr><td>Innovative cities</td><td>FI, IT</td></tr>
</table>

6.1.5 Quality of life and public services

There are different ways of enhancing quality of life and public services in weaker areas (see Table 11). Solidarity and fiscal equalisation mechanisms can be very important in terms of the funding available to subnational authorities and can have considerable effects, but they remain poorly understood as they usually involve complex, tax-based mechanisms. In addition, there are smaller-scale, more targeted interventions that aim to alleviate disadvantages linked to geography or ethnicity.

Table 11: Quality of life and public services – Types of instrument and country examples

Instruments	Country examples	Rationale	Potential difficulties
Solidarity mechanisms	CH, DE, ES, IT	Structurally weaker regions typically have lower levels of own tax resources, leading to poorer public services (vicious circle); subsidiarity – puts local/ regional authorities in charge of tailoring policies to meet local/regional needs	Complex, shaped by broader institutional frameworks; depend on political decisions on the degree of redistribution and commitment to equivalent living conditions and/or public services – vs ensuring that richer regions retain own resources
Fiscal equalisation mechanisms	Most countries		
Targeted interventions	- Households in peripheral areas (FR, GR, HR, NO, UK) - Local grocery stores/petrol stations in peripheral areas (NO, SE) - Areas with ethnic/language minorities (EE, FI, IE, SE, SI)	Poorer public services and lower income can lead to population (and workforce) loss in peripheral areas; specific assistance can help address problems faced by particular ethnic/language groups	As long as general public services are good, mainly useful in peripheral areas and areas with specific ethnic/language groups

6.2 Recent changes to policy instruments

Approaches in many countries (especially in the EU15) have remained relatively stable in 2013-14 (see Table 12). A second group of countries has seen some degree of change, partly as a consequence of the crisis. Schemes in the remaining countries, including many in ***Central and Eastern Europe***, are still under preparation, but there are also examples of ongoing domestic review processes, most notably in ***France.***

Table 12: Degree of change in regional policy instruments (as at Summer 2014)

	Country examples
Largely continuity	Austria, Denmark, Finland, Germany, Ireland, Italy, Netherlands, Norway, Poland, Portugal, Spain, Switzerland, United Kingdom
(Some degree of) change	Belgium, Czech Republic, Estonia, Sweden
Under preparation / review	Croatia, Cyprus, France, Greece, Hungary, Italy, Latvia, Lithuania

The main developments at the level of individual aid schemes are assessed, with information provided on examples of (i) continuity of support, (ii) the adaptation of existing schemes and the reasons for change, (iii) the introduction of new support schemes, (iv) on-going reviews of aid schemes and longer-term programmes, and (v) the closure of schemes.

6.2.1 Continuity of support

At the level of aid schemes, there has been a considerable degree of continuity, sometimes backed up by **positive evaluation findings** (Lithuania, Sweden, Northern Ireland):

- In ***Lithuania***, new aid schemes were marginally adapted and based on a successful 2007-13 business investment scheme (Leader LT), which has been found to have positive impacts on business performance, especially in a context of recession.
- In ***Sweden***, evaluations in 2012 and 2013 found positive effects of the Regional Investment Grant; for 2014-20 it will be extended to include certain salary costs to compensate for the abolition of the employment grant.
- In ***Northern Ireland***, a 2013 evaluation of the main aid scheme (grants, loan guarantees, share capital) found that the on-going case for intervention remained sound in 2011, and significant firm-level benefits and economy-wide impacts were delivered.

6.2.2 Adaptation of existing schemes

In a number of countries, schemes have been or are being adapted to **make aid more strategic and to ensure greater impact** (Belgium, Bulgaria):

- Authorities in ***Flanders*** have made investment aid more targeted on 'strategically transformative' projects that contribute significantly to the regional economy (e.g. strategic clusters and leading plants) and focus more on job creation;
- In ***Bulgaria***, the tax relief scheme for manufacturing in high unemployment areas now involves a requirement to ensure greater impact that reinvested funds have a greater impact on job creation and to raise minimum eligible expenditure thresholds for some projects.

In addition, and partly in response to restrictions on large firm aid, **support for smaller firms is being promoted**, for example in Finland, France and Lithuania:

- A 2013 evaluation in ***Finland*** recommends a focus more on more risk-oriented projects in small firms under the regional investment aid scheme;
- In ***France***, there are plans to make the regional development grant more accessible to SMEs;
- The focus on SMEs and micro-firms will be stronger under two investment aid schemes being prepared in ***Lithuania***; more generally, SMEs will be the primary target of business aid in 2014-20, except for R&D aid and R&D-related infrastructure.

Further changes concern the **population coverage, target groups and sectors**, notably in the Nordic countries:

- The geographical/population coverage was reviewed in ***Finland***, with specific support for micro-firms discontinued under regional investment aid (including in sparsely-populated areas); in ***Norway***, the population coverage of the social security concession was extended, while in ***Sweden***, the regional targeting of the regional grant for business development for assisted areas was stopped and will be available across the country in 2014-20.
- The sectoral coverage was restricted for the social security concession in ***Norway*** (energy and transport), in response to pressure from the EFTA Surveillance Authority; in ***Sweden,***

sectoral coverage for the transport grant was extended (to the berry and wild game sectors) with a greater emphasis placed on environmentally-friendly production methods.

- The main infrastructure investment aid scheme available in ***Estonia*** (outside Tallinn and Tartu) was extended considerably in preparation of 2014-20. It is now available to businesses (in addition to local authorities) and also covers incubation activities and infrastructure investments in urban areas; however, there have been concerns over a lack of focus.

In some countries, efforts are being made to **reduce the administrative burden of beneficiaries**, most recently in Bulgaria and Italy:

- In ***Bulgaria***, documentary requirements to obtain investment aid have been streamlined;
- In ***Italy***, project award and payment procedures, as well as the implementation procedures of development contracts in Article 107(3)(a) and earthquake areas, have been streamlined and accelerated.

6.2.3 New support schemes

New schemes were mainly introduced to **stimulate job creation**, most of which target pockets of high unemployment at the sub-regional level (Belgium, Czech Republic, Slovenia). In preparation for the 2014-20 period, Estonian and Romanian authorities also prepared schemes to combat unemployment.

- The ***Brussels-Capital*** region in Belgium introduced a new scheme for sustainable job creation in a selected part of its Article 107(3)(c) area;
- In the ***Czech Republic***, grants for employment creation are available to firms, local authorities and NGOs in the Ústí nad Labem and Moravia-Silesia regions;
- ***Slovenia*** have introduced temporary measures for municipalities in the Zasavska region as well as for the city of Maribor and neighbouring municipalities in 2013 in the context of a deteriorating labour market situation; similar initiatives already exist for other parts of the country and are currently being evaluated;
- In ***Portugal***, an incentive scheme for local micro-enterprises was launched in 2013 in response to the crisis and provides grants for investment and job creation in the mainland regions (excluding Lisbon) and interior municipalities within these regions;
- In preparation for 2014-20, ***Estonia*** is developing a new youth unemployment scheme which is likely to be available across the country; ***Romania*** has seen the launch of an investment aid scheme for projects creating at least 20 jobs in April 2014.

In addition, several **new schemes were introduced in the framework of financial instruments** in Hungary and Italy:

- In ***Hungary***, three new schemes were notified under the regional capital fund in 2013 and European Commission authorisation was received to raise capital exceeding *de minimis*; the fund is obliged to undertake investments in less-developed regions;
- In ***Italy***, special sections for women entrepreneurs and the Campania and Sicily regions were introduced to the central SME guarantee fund in early 2014; conditions to obtain support from the fund are more favourable in Article 107(3)(a) areas.

6.2.4 Longer-term reviews of aid schemes and programmes

At the same time, review processes of aid schemes and programme-type support are under way, notably in France and Switzerland. These concern:

- targeted tax incentive schemes in ***France*** (rural renewal zones) and ***Switzerland***, where the legal basis and spatial targeting are under review;
- longer term programmes, also in ***France*** and ***Switzerland***, with a new generation of French State-region planning contracts under preparation and a new multi-annual programme being developed for the Swiss New Regional Policy for 2016-23;
- future plans for integrated support packages available to weaker areas in ***Estonia, Latvia and Lithuania*** and for military locations in ***France***.

6.2.5 Discontinuation of (parts of) schemes

Finally, some schemes have been discontinued in part or in full. In most cases, this has been foreseen or is based on negative evaluation findings.

- Concerns over the effectiveness of support led to the closure of the Investment Allowance in ***Germany*** in 2013 (and funding allocations had been degressive from 2007), as well as to the discontinuation of preferential treatment of firms located in urban and rural high unemployment zones in ***Wallonia***.
- In ***Slovenia***, temporary support to boost employment under the Posočje programme was closed as planned in 2013.
- In ***Sweden***, the Employment Grant is being abolished, but certain salary costs will remain eligible under the Regional Investment Grant in future.
- In the case of ***Latvia***, the list of 'specially supported areas' at the level of municipalities was not updated in 2013 or 2014, and therefore firms in these areas have not been eligible for the tax relief and direct grants that had been available until the end of 2012.

7. THE INSTITUTIONAL FRAMEWORKS OF REGIONAL POLICY

KEY FINDINGS

There is substantial variation in regional policy frameworks, which are strongly shaped by domestic government structures and the allocation of responsibilities between administrative levels. Countries can be divided into four groups: (i) federal countries where policy-making responsibility is mainly regional but where there are important national coordination mechanisms; (ii) regionalised countries where responsibility is shared between national and regional levels; (iii) decentralised countries where policy is mainly national but with significant regional coordination mechanisms; and (iv) unitary countries where policy is essentially national with no significant subnational component.

There have been reforms in regional policy structures in a number of countries in 2013-14, driven by EU frameworks and domestic administrative reforms. In some cases, the focus has been on strengthening administrative capacity but elsewhere there is an emphasis on streamlining regional policy delivery. These changes can be seen in three different dimensions of regional policy implementation: (i) the geographical level at which policy is delivered; (ii) coordination mechanisms; and (iii) tools for managing the performance of policy.

7.1 Typology of the institutions of regional policy

There are significant differences in regional policy delivery across Europe, due to variations in government structures and the division of powers between tiers of public administration. Four categories of regional policy institutional settings can be identified.

7.1.1 Regional policy in federal countries

First, there are **federal countries** where sub-national authorities have wide-ranging responsibilities. In these countries, there are elected regional parliaments with significant budgetary and legislative powers, including the right to levy taxes. These countries have highly regionalised approaches to policy design and delivery.

Table 13: Regional policy systems in federal countries

Country	National regional policy tasks	Sub-national regional policy tasks
Austria	Federal Chancellery, ÖROK (Austrian Conference on Regional Planning) have coordinating roles.	9 self-governing states - *Länder* (NUTS 2) - lead on decision-making, implementation of own programmes.
Germany	National coordination provided through Federal Ministry for Economics and Technology under the Regional Joint Task.	16 self-governing states - *Länder* (NUTS 1) - responsible for own economic development programmes.
Belgium	No national tasks, but recent involvement in developing new tax incentive scheme for high unemployment areas.	3 self-governing territorial Regions and 3 language-based Communities responsible for economic development.
Switzerland	State Secretariat for Economic Affairs (SECO) sets strategic direction and (co) finances.	26 self-governing cantons (NUTS 3) cantons define how objectives are achieved, including project selection.

Regional policy delivery in ***Austria*** is generally in the hands of the *Länder* (i.e. *Land* departments of economic development and *Land* business agencies). However, the sub-*Land* level also plays a role, with regional management offices acting as a bridge to the local level. The national contribution is limited to the (informal) coordination functions of the Federal Chancellery and ÖROK.

Belgium also adopts a highly-regionalised approach. Flanders, Wallonia and Brussels have the key delivery functions, with an extremely restricted national role.

In ***Germany***, *Land* and local authorities have the main decision-making and implementation responsibilities, although the Regional Joint Task operates within a joint federal-*Land* coordination framework, based on the constitution's recognition of areas where 'joint tasks' are needed to achieve constitutional goals.

In ***Switzerland***, the cantons have a key role in regional policy design and implementation but the federal body, SECO, sets national strategic objectives and provides national co-funding and wider support under the New Regional Policy. The cantons are the central contact points of the federal government, and they also ensure cooperation with the sub-cantonal level.

7.1.2 Regional policy in regionalised countries

In **regionalised countries**, the national level plays a stronger role in strategy setting and coordination but regional authorities have significant autonomy to develop their own regional policy strategies. In particular, there are elected regional parliaments that exercise some budgetary powers, and have limited rights to levy taxes.

Table 14: Regional policy systems in regionalised countries

Country	National regional policy tasks	Sub-national regional policy tasks
Italy	Department for Economic Development and Cohesion responsible for strategic development and coordination (being replaced by new Agency for Territorial Cohesion).	20 regions with directly elected councils design and implement regional programmes.
Spain	Ministry of Finance and Public Administration responsible for management and coordination.	17 directly-elected autonomous communities, 2 autonomous city regions implement according to strategies and plans.
UK (Scotland, Wales, Northern Ireland)	Scottish Government, Welsh Government and Northern Ireland Executive set development strategies.	3 directly-elected regions (Scotland, Wales, Northern Ireland) implement own development strategies.

In ***Spain***, autonomous communities have significant decision-making and implementation responsibilities with respect to economic development. The national Ministry of Finance and Public Administration has overall responsibility for national regional policy instruments and EU Cohesion policy but regions are responsible for their own economic development and sectoral strategies.

The Devolved Administrations of the ***United Kingdom*** (Scotland, Wales and Northern Ireland) are responsible for regional policy design and implementation.

In ***Italy***, the design and implementation of regional policy involves both national and regional public administrations. National authorities are responsible for key strategic and coordination tasks and for implementing sectoral Cohesion policy OPs and the domestic sectoral programmes of the Development and Cohesion Fund (FSC-FAS), while regional authorities design and implement regional programmes.

7.1.3 Regional policy in decentralised countries

Third, in **decentralised countries**, sub-national units develop and, especially, implement regional policy initiatives but there is a stronger role for the national level. There is a degree of regional decentralisation, with elected parliaments. The regional level is largely funded by financial transfers, as regional authorities have limited rights to levy taxes.

Table 15: Regional policy systems in decentralised countries

Country	National responsibility for regional policy	Sub-national regional policy tasks
Croatia	Ministry of Regional Development, national Agency for Regional Development sets strategy, manages funding, coordinates.	20 directly-elected counties and Zagreb city (NUTS 3) develop strategies, regional development agencies, assist with implementation.
Czech Rep	Ministry for Regional Development sets strategy, manages funding, coordinates.	13 directly-elected regions and Prague city-region (NUTS 3) develop strategies, assist with implementation.
Denmark	Ministry of Business and Growth provides national coordination, the Danish Business Authority (DBA) important implementation role.	5 directly-elected regional councils, 6 regional growth fora (partnership bodies) develop strategies and implement.
Finland	Ministry of Employment and the Economy sets national targets, coordinates, monitors, evaluates regional strategic programmes.	18 regional councils (plus the autonomous island of Åland) elected by municipal councils develop regional strategic programmes. 15 regional-level state administrations (ELY-centres) important in implementation, with four ELY-centres specialising in the management of Structural Funds.
France	CGET (ex-DATAR) as key agency for coordination; answerable to Minister for Territorial Equality and Housing and Minister for Urban Development.	26 directly-elected regions, increasingly important role in funding, strategic design and implementation through state-region contracts (CPER, include targeting on problem areas)and ESIF programmes.
Greece	Ministry of Regional Development and Competitiveness national coordinating and management tasks.	13 directly-elected regions prepare and implement regional strategies.
Netherlands	Ministry of Economic Affairs national coordination and oversight.	12 directly-elected provinces responsible for most aspects of regional policy.
Norway	Ministry of Local Government and Modernisation sets strategy, Innovation Norway, SIVA and Research Council of Norway important in coordination, implementation.	Regional offices of national agencies important in implementation, with input from 19 directly-elected counties (NUTS 3).
Poland	Ministry of Infrastructure & Development national strategy setting, co-ordination.	16 directly-elected regions develop own strategies and manage EU-funded regional OPs
Slovakia	Ministry of Transport, Construction and Regional Development sets and implements development strategy. Government Office of Slovak Republic responsible for Cohesion policy.	8 directly-elected regions have own strategies but lack own resources.
Sweden	Ministry of Enterprise, Energy and Communications provides national strategic objectives and coordination, Swedish agency for Economic and Regional Growth has key implementation role.	21 provinces, 4 directly-elected regions. Sub-national implementation through directly-elected Regional Assemblies, Municipal Cooperation Bodies; or County Administrative Boards.

In ***France***, an unprecedented phase of decentralisation is underway, but the national level retains its coordinating role and is the main interface with the European Commission in the field of regional aid and Cohesion policy. The State is responsible for a limited number of aid schemes but other instruments are designed and implemented together with sub-national authorities (regions, *départements*, municipalities and their groupings).

In ***Finland***, regional policy delivery is shared between the State and the municipalities. Policy goals are set at the national level and provide the context for regional strategies and implementation. Regional councils develop strategic programmes on behalf of the representative municipalities. Alongside the regional councils, the regional State administration (ELY centres), carry out operational tasks and manage funding.

In the ***Netherlands***, regions are responsible for most aspects of regional policy but the Ministry of Economic Affairs has a coordinating role with responsibility for relations with the provinces, clusters and EU programmes. Regional Ambassadors aim to link central government and the regions.

In ***Poland***, the Ministry of Infrastructure and Development is responsible for formulating and co-ordinating Poland's regional development strategy and Cohesion policy. Poland's 16 regional self-governments have responsibility for the development of their own territories.

In the ***Czech Republic***, self-governing regions (NUTS 3 level) propose and approve their own regional development strategic documents but national government is the key body for the strategic orientation, funding and implementation of regional policy.

In ***Denmark***, the Danish Business Authority oversees regional activities and acts as managing authority for Cohesion policy programmes. It also coordinates regional and national initiatives within the framework of regional growth partnerships. The Regional Growth Fora and the elected regional councils develop regional growth and development strategies jointly.

In ***Sweden***, the coordination and supervision of regional growth policy is the responsibility of the national level, while the national development agency is responsible for implementation. The responsibilities for regional growth policy vary between counties: either directly-elected Regional Assemblies (four counties), Municipal Cooperation Bodies i.e. local government decision-making forums (13 counties), or County Administrative Bodies i.e. the national government's representatives in the regions (four counties).

7.1.4 Regional policy systems in unitary countries

Last, **unitary countries** take a national-level approach to the delivery of regional policy, although local authorities can contribute to strategy-building and implementation in a limited way. In these countries, there may be a degree of administrative regionalisation but there are no elected regional governments. Countries have limited or no policy responsibilities at the regional level: all powers and resources are controlled by central government.

For countries such as ***Cyprus**, **Malta*** and ***Luxembourg***, this approach reflects their small size. For others – ***Greece**, **Portugal**, **Slovenia, Latvia, Bulgaria*** and ***Romania*** – it is due to the traditionally centralised delivery of policy.

There are, however, countries where, alongside central government, municipalities are involved in the implementation of regional policy. This can be through local economic partnerships: in the ***United Kingdom (England),*** regional policy is led by central government, but 39 Local Enterprise Partnerships (of local authority leaders and businesses) negotiate local 'Growth Deals' with the national level. Municipalities can also contribute to policy design and implementation in conjunction with regional offices of the central State (e.g. ***Estonia, Hungary***).

Table 16: Regional policy systems in unitary countries

Country	National responsibility for regional policy	Sub-national regional policy tasks
Bulgaria	Ministry of Regional Development responsible for strategic orientation, coordination, implementation.	Non-regionalised: district administrations are deconcentrated State bodies.
Cyprus	Directorate General for European Programmes, Coordination and Development (Ministry of Finance) and Ministry of Interior responsible for strategic orientation, coordination, implementation.	Non-regionalised: provinces are deconcentrated State bodies.
Estonia	Ministry of Interior (within this, Minister of Regional Affairs) responsible for devising and coordinating regional policy.	Non-regionalised State, 15 counties are deconcentrated State bodies that implement at regional level with input from municipal associations etc.
Hungary	Ministry for the National Economy national supervisory and coordination role, strategic planning.	Non-regionalised, 20 county councils (NUTS 3) involved in implementation.
Ireland	Regional policy not an explicit policy domain.	Non-regionalised State, 3 regional assemblies, no executive powers, comprising local government representatives.
Latvia	Ministry of Environmental Protection and Regional Development, co-ordinates and sets strategy State Regional Development Agency (SRDA) responsible for implementation.	Non-regionalised State, 5 planning regions.
Lithuania	Ministry of the Interior co-ordinates and implements regional development.	Non-regionalised State, 10 counties are state organisations. Limited municipalities input through regional development councils
Luxembourg	Wholly national through Ministry of Interior and Spatial Planning.	Non-regionalised.
Malta	Wholly national through Ministry for European Affairs and the Implementation of the Electoral Manifesto (but also Ministry for Gozo).	Non-regionalised State but special arrangements for Gozo.
Portugal	Wholly national through Ministry for Regional Development.	Non-regionalised State, 5 planning regions, are decentralized bodies of central administration, 2 autonomous regions.
Romania	Ministry of Regional Development and Public Administration co-ordinates and implements regional development.	8 development regions for planning and regional development agencies for implementation.
Slovenia	Government Office for Local Self-Government and Regional Policy co-ordinates and implements regional development.	Non-regionalised.
United Kingdom (England)	Department for Business, Innovation and Skills and Department for Communities and Local Government (England only) set strategy and coordinate.	Implementation role for municipalities through voluntary private sector-led local enterprise partnerships.

7.2 Changes in the institutions of regional policy in 2013-14

Although there are several countries where institutional arrangements for regional policy are relatively stable (including ***Austria, Germany*** and ***Spain***), approaches have evolved significantly in a number of countries in 2013-14. In some cases, the reorganisation of regional policy implementation is influenced by budgetary constraints, prompting 'streamlining'. Elsewhere, increased scrutiny on regional policy effectiveness has led to efforts to build capacity or to new mechanisms for policy evaluation. Recent changes either involve the expansion of regional policy delivery systems and capacity-building or the rationalisation and integration of existing structures.

These changes are apparent in three different dimensions of regional policy implementation: (i) the **geographical level** at which policy is delivered; (ii) **coordination mechanisms**; and (iii) tools for **managing the performance of policy**. The tables in this section summarise the most significant examples of change and indicate the direction and drivers of change.

7.2.1 Reallocation of policy responsibilities between administrative levels

A first set of changes relates to level of government which is responsible for the design and implementation of regional policy i.e. **whether tasks are being shifted to central government (centralising) or to the regional or local level (decentralising)** (see Table 17). These changes may be driven by domestic reforms or by shifts in EU Cohesion policy.

In some countries, these changes in the level responsible for policy tasks have led to **capacity-building**, including, for example, the allocation of new responsibilities to the regional level, the creation of new bodies at a national or regional level, or an increase in the share of regional policy funding managed at the regional level.

Elsewhere, changes take the form of a **rationalisation or integration** of previous regional policy responsibilities. This may involve the closure of particular regional policy bodies, the shift of tasks between bodies, or the concentration of responsibilities in a smaller number of entities.

Table 17: Reallocating regional policy tasks between government levels, 2013-14

<table>
<tr><th rowspan="3">Rescaling policy delivery</th><th colspan="4">Driver</th></tr>
<tr><th colspan="2">Domestic reforms</th><th colspan="2">Cohesion policy</th></tr>
<tr><th>Capacity-building</th><th>Integration - rationalisation</th><th>Capacity-building</th><th>Integration - rationalisation</th></tr>
<tr><td>Centralising</td><td></td><td>Estonia: Minister of Regional Affairs post to be abolished.

Italy: Tasks of dedicated Minister for Territorial Cohesion now lie with Presidency of the Council of Ministers, Department for Economic Development and Cohesion being replaced by new Agency for Territorial Cohesion

Norway: Host ministry expanded to take on new functions</td><td>Slovenia: New Government Office for Development and European Cohesion Policy.</td><td>Croatia: Five planning areas as coordination framework.

Finland: Concentration of tasks in fewer intermediate bodies.</td></tr>
<tr><td>Decentralising</td><td>Bulgaria: Municipal development plans now aim to mobilise local capacity in addressing local development weaknesses

Ireland: 2014 law aims to decentralise policy responsibilities to Regional Assemblies.

Romania: New Law of Decentralisation to be submitted to Parliament in 2014.</td><td>France: Regional authorities key in design and implementation, reform ongoing (including potential merger of regions and abolition of sub-regional tiers)</td><td>Czech: Self-governing regions can designate areas for concentrated support.

France: Cohesion policy largely delegated to regions for 2014-20.

Poland: Higher share of EU funds managed regionally.</td><td></td></tr>
</table>

7.2.2 New coordination mechanisms 2013-14

A second set of changes involves the creation of new coordination mechanisms between the actors and administrative levels within regional policy, or between regional policy and other related policy fields (see Table 18).

Change can take the form of an **expansion of institutional capacity**, for example via additional coordination bodies, new contractual mechanisms, or stronger procedures for ensuring coordination.

By contrast, change can instead mean that **coordination structures and tasks are being rationalised**, notably through the refocusing of existing coordination mechanisms, or the closure or merger of existing coordination bodies.

Table 18: Changes in coordination mechanisms in 2013-14

Driver			
Domestic reforms		**Cohesion policy**	
Capacity-building	**Integration - rationalisation**	**Capacity-building**	**Integration - rationalisation**
Belgium: New federal initiative for collaboration between federal and provincial levels. **Poland**: New territorial contracts for coordination of development activities **Portugal**: New Ministry for Regional Development **Switzerland**: New 'decision tree' and work on guidance document at national level to ensure conformity of approaches in cantons	**Denmark**: New Act merges regional strategic tasks for development and business growth **UK (England)**: New Single Team for Local Growth and City deals. **France**: Inter-ministerial body DATAR merged with urban development agencies to integrate regional development. **Netherlands**: Responsibilities within Ministry of Economic Affairs shifted to DG Enterprise and Innovation as rationalisation process. **Portugal**: New National Agency for Development and Cohesion merges bodies responsible for domestic/EU policy.	**Czech:** Coordination strengthened - role of Ministry, new ESIF Council, National Coordination Authority, permanent conferences. **Hungary**: New approach to supporting structurally weak micro-regions combines central coordination with local level planning. **Italy**: Institution of 'Presidio Nazionale' for coordinating implementation of the Partnership Agreement	

7.2.3 Performance management tools in 2013-14

The third dimension of change focuses on steps to manage or improve the performance or effectiveness of regional policy (see Table 19). **EU frameworks are a particular influence** in this regard; not only does EU Cohesion policy place a stronger emphasis on performance and results-orientation in 2014-20, but EU regional aid policy also introduces requirements relating to evaluation and impact assessment. In some countries, **there are also domestic factors** which are driving an increased focus on analysing and managing the performance and impact of regional policy, such as public sector financial constraints or a stronger emphasis on political accountability.

All examples of performance management tools created in 2014-24 take the form of **capacity building** (rather than rationalisation). These typically take the form of investment in administrative capacity or efforts to strengthen evaluation systems and methodologies.

Table 19: New performance management tools in 2013-14

	Domestic reforms	Cohesion policy
Capacity-building	**UK (England)** - evaluation strengthened with launch of 'What Works' centres. **France** – Modernisation of Public Policies (MAP) reform with commitment to enhance the role of evaluation **Sweden** – increased focus on monitoring, evaluation, including at sub-national level **Switzerland** – recent work on new impact evaluation methods	**Poland** – strengthened evaluation system, driven by Cohesion policy **Italy** - drafting of Administrative Strengthening Plans by each region and ministry administering EU funds

8. CONCLUSIONS AND ISSUES FOR DISCUSSION

The 2013-14 period has seen widespread revision and reform of regional policy across Europe. A key influence has been the preparations for Cohesion policy and EU regional aid maps in 2014-20. Domestic factors have also played a part, including the national and regional economic situation, the role of regional policy *vis-à-vis* other policy fields, and the broader institutional context. This final section summarises what has changed in regional policy in 2013-14 and looks at the direction of travel for regional policy in 2015. It also sets out a number of issues for discussion.

8.1 Key regional policy changes in 2013-14

8.1.1 New evidence on the regional impact of the crisis

Most European countries have seen a degree of economic recovery in 2013-14 although levels of GDP in a number of countries in 2013 remain below 2007 levels (in constant prices).

Studies indicate that regional disparities have widened since 2008 both across Europe as a whole and within some individual countries, due to regional variation in adaptability and sectoral structure. Even where disparities have narrowed within individual countries, this is sometimes due to the deterioration of the economic situation in more dynamic regions, although Germany in particular has seen a genuine improvement in its weaker regions in the past five years.

Although the EoRPA countries perform better than the EU average on most indicators, some show relatively high levels of regional disparities on indicators such as GDP per employee, unemployment rates, patent applications per capita, and the percentage of the population at risk of poverty.

8.1.2 Thematic objectives have been strengthened

Several countries have revised the core objectives of regional policy in 2013-14, either because their national regional policies are closely linked to the EU Cohesion policy and EU regional aid cycles or due to domestic political decisions and in response to changes in regional economic circumstances.

The strategic objectives of regional policy are typically broad but can be grouped together, depending on the emphasis placed on: (i) reducing economic disparities between regions; (ii) tapping the potential of all territories; and (iii) the contribution of regions to national growth.

A key feature in 2013-14 is a stronger focus on themes such as innovation/R&D, urban development, energy efficiency, social cohesion, employment, and governance. Although this change is often linked to the alignment of Cohesion policy with the Europe 2020 strategy's themes, there are also domestic reasons for different thematic emphases in particular countries.

8.1.3 Falling EU funding for most poorer countries

Poorer countries and regions are receiving less EU funding in the 2014-20. Cohesion policy funding allocations (relative to national GDP) are stable in most wealthy countries in 2014-20 but show a reduction in a number of poorer countries. This is partly because of increases in these countries' GDP over the past decade and also because a lower proportion of the total Cohesion policy package is being allocated to the poorest countries and regions in 2014-20.

Regional aid is an important instrument of regional policy in many countries, but the scale of aid spending varies greatly. Data for 2010-12 show no clear correlation between national prosperity and the level of regional aid as a percentage of GDP.

8.1.4 EU frameworks are reshaping the geographical focus of regional policy

The geographical focus of regional policies across Europe is strongly influenced by EU Cohesion policy, which allocates different funding levels to particular regions, and by EU regional aid policy, which constrains the allocation of regional aid to certain regions.

Consequently, the spatial coverage of policy is in flux. The maps associated with the two EU frameworks have been redrawn for 2014-20, although the extent of change varies across countries. The capital city regions in Hungary, Poland, Romania and Slovenia have either lost assisted area status or have been downgraded, as have structurally weaker regions in Germany and Spain. Finland and Sweden have seen significant losses in aid areas and/or Cohesion policy allocations, while Austria faces losses in Cohesion policy funding but an increase in aid map coverage. By contrast, France will see a considerable increase in aid area coverage and an upgrading of Cohesion policy status for a number of regions.

Regional policy continues to focus on areas of structural or locational disadvantage, but there is also an emphasis on areas with potential, notably urban areas and industrial zones.

8.1.5 Instruments are being revised for 2014-20 but trends remain unclear

The regional policies of European countries involve a range of instruments, including business support, business-oriented infrastructure, support packages, funding for bottom-up development, and mechanisms aimed at enhancing quality of life and public services in weaker areas.

Many countries are reformulating their portfolio of instruments for 2014-20. Countries have focused on ensuring European Commission approval of the regional aid maps and Cohesion policy Partnership Agreements before finalising (and notifying or submitting for information) regional policy instruments for 2014-20. There is particular uncertainty in the case of schemes affected by State aid rules, such as those covering investment aid to larger firms or providing funding for infrastructure.[18]

8.1.6 A stronger emphasis on managing policy performance

The clearest shifts in the institutional management of regional policy in 2013-14 involve a greater emphasis on the effectiveness of regional policy. This is evident in efforts to strengthen evaluation systems and methodologies, and additional investments in administrative capacity.

These changes are often driven by EU frameworks. Not only does EU Cohesion policy place a stronger emphasis on performance and results-orientation, but EU regional aid policy in 2014-20 also introduces new requirements relating to evaluation and impact assessment. However, there are also

[18] F. Wishlade (2014) *Another generation in Competition policy control of Regional development policy*, EoRPA Paper 14/5, Paper prepared for the 34th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014.

domestic factors in some countries which are driving an increased focus on the performance and impact of regional policy, such as public finance constraints or a drive for political accountability.[19]

8.2 Looking to the future

The period 2014-15 will continue to be dominated by the completion of negotiations on EU policy frameworks and the start of the implementation phase. The European Commission has yet to approve some Partnership Agreements and most Operational Programmes, and it will take until 2015 for many programmes to be launched with the first calls for proposals. With respect to regional aid, all the aid maps for 2014-20 have been approved, but many schemes have not yet been notified or submitted to the Commission for information.[20] Greater clarity on the shape and direction of shifts in regional policy instruments will emerge as Operational Programmes and aid schemes are approved and published.

It is likely that the thematic focus of Cohesion policy will continue to influence the strategic objectives of domestic regional policies in 2014-15. Similarly, the geographical orientation of regional policy will be shaped by EU frameworks, although some countries will maintain complementary domestic maps.

From an institutional perspective, constraints on public expenditure and broader concern with policy performance will focus attention on the value-for-money of regional policies. The resurgent interest in managing the effectiveness of regional policy, through evaluation and monitoring, as well as capacity building, is partly due to the influence of EU frameworks but also in response to domestic pressures.

Against this background, key questions for the EoRPA meeting include:

1. Are new **patterns of regional disparity** emerging (e.g. due to changing economic circumstances) and, if so, how should regional policy respond?

2. Is the stronger **focus on thematic objectives** a useful approach to addressing regional economic disparities?

3. Is there **sufficient funding** for regional policy? Are there domestic constraints on regional policy expenditure?

4. Which **geographical scale** is most appropriate for tackling regional disparities? Does this depend on the type of regional problem? Is there a need for domestic maps in addition to EU-level maps?

5. Is new thinking needed on the **instruments of regional policy**? What other instruments could be envisaged? Is there enough flexibility to respond to any future crises?

6. Is there a need for changes in the **institutional arrangements** of regional policy?

[19] L. Polverari and A. van der Zwet (2014) *Evaluating the effectiveness of regional policy*, EoRPA Paper 13/6, Paper prepared for the 34th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014.

[20] See F. Wishlade (2014) *op. cit.* and C. Mendez and J. Bachtler (2014) *Prospects for Cohesion Policy in 2014-20 and Beyond: Progress with Programming and Reflections on the Future*, EoRPA Paper 14/4, Paper prepared for the 34th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014.