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Versatility and Ambiguity: First Experiences with the Integrated Territorial Investment Tool

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The following article examines some of the initial experiences of Member States with the Integrated Territorial Investment (ITI) tool. It draws from examples of ITI in Belgium (Limburg) and Finland (Six Cities) which are already in advanced stages of planning. The article highlights the versatility of ITI as an implementation tool for integrated territorial approaches but also considers key challenges in relation to administrative and institutional capacity, territorial competitiveness, limited scale of resource allocations, and ambiguities in relation to implementation requirements.

I. Introduction

There will be an increased emphasis on territorial approaches in the cohesion policy period from 2014-20. It contrasts with the 2007-13 period, which was characterised by conceptual ambiguity surrounding the territorial dimension of strategic documents. In line with the Fifth Cohesion Report, the preamble to the Common Provisions Regulation (CPR)\(^1\) states that more attention will be given to the role of cities, functional geographies and sub-regional areas facing specific geographical or demographic problems.\(^2\) Furthermore, a number of new instruments and tools have been introduced to facilitate territorial approaches that can provide a mechanism for an integrated use of funding streams.

Integrated Territorial Investment (ITI) is one of the tools to implement integrated territorial approaches. ITI is included in the regulations as a voluntary tool, e.g. Member States can decide whether they wish to use it as an implementation mechanism for European Structural and Investment Fund (ESIF) programmes. Initial indications are that 21 Member States will use the ITI tool. Around 42% of ERDF fund allocations to sustainable urban development under article 7 of the ERDF Regulation will be implemented using the ITI tool. Furthermore, fourteen Member States foresee support to other territorial strategies using ITI. These ‘additional’ ITI strategies will predominantly target regions with specific challenges or they will play a complementary role to urban ITI strategies.\(^3\) Although it is still too early to analyse the full impact of the tool, the high level of interest in ITI in many Member States suggests it ‘fills a gap’ and that the tool is considered useful for implementing territorial approaches.

The aim of this article is to demonstrate the potential of ITI as well as highlighting some of the key challenges that Member States are facing. The article demonstrates that ITI is a flexible tool which provides a versatile delivery mechanism for territorial approaches. The empirical section draws from two relatively advanced case studies – ITI Limburg in Flanders, Belgium and ITI Six Cities (6Aika) in Finland. It then draws some broader lessons from these two cases.

The article draws from research conducted in the context of the IQ-Net network between October and...
November 2014. IQ-Net is a network managed by the European Policies Research Centre which brings together regional and national partners from ESIF programmes across the European Union. Its aim is to improve the quality of ESIF programmes through exchange of experience. The network involves a structured programme of applied research and debate, centred on bi-annual conferences.

II. The Route to Integrated Territorial Development

Territorial approaches have gained prominence in cohesion policy as part of a shift to place-based policies. The 2009 Barca Report argued that such policy interventions are superior to spatially-blind interventions, which too often assume a top-down approach. In essence, place-based or territorial approaches rely on local knowledge, capital and control over resources as well as a locally developed strategic framework.

The major, often global, challenges have a strong local dimension. For example, according to the Territorial Agenda of the European Union, territorial development policies should address the following issues:

- Increased exposure to globalisation and structural changes caused by the global economic crisis;
- New challenges for European integration and growing interdependence of regions, territorially diverse demographic and social challenges, and spatial segregation of vulnerable groups;
- Climate change and environmental risks which have geographically diverse impacts;
- Growing energy challenges threatening regional competitiveness; and
- Loss of biodiversity, growing vulnerability of natural, landscape and cultural heritage.

The nature of these challenges requires an integrated mix of interventions in order to increase their impact and to exploit fully the development potentials of different types of territories.

While the 2014-20 ESIF Regulations recognise the importance of integrated development strategies, the integration of funding streams is often problematic. The ever-increasing complexity of rules and regulations, differences in administrative structures and procedures as well as conflicting policy goals, makes breaking down these ‘silos’ inherently difficult. In an attempt to promote integration across funds and administrative boundaries, the European Commission is promoting specific tools for tackling complex development challenges, notably Community-led Local Development (CLLD), based on the LEADER initiative, and a new tool – Integrated Territorial Investment (ITI).

ITI allows EU Member States to combine funding from several Priority axes from one or several OPs (ERDF, ESF, Cohesion Fund and complemented by EAFRD and EMFF) to deliver multi-dimensional and cross-sectoral interventions. Although combining funds is not compulsory, ITI is intended to provide an efficient and flexible mechanism for formulating integrated responses to diverse territorial needs. The key elements of an ITI are as follows.

- **A designated territory and integrated development strategy** – The territory of an ITI can be any geographical area (urban, urban-rural, sub-regional, or inter-regional). The ITI can also involve a cross-border area. In most cases it operates below the managing authority level but can also cross administrative units.

- **A package of actions to be implemented** – ITI activities have to contribute to both the development objectives of a territorial strategy and the thematic priorities of the relevant Priority axes of the participating OP(s).

- **Governance arrangements to manage ITI** – OP managing authorities bear the final responsibility for managing and implementing ITI. However, intermediate bodies (local authorities, regional development bodies, NGOs) may be appointed to carry out delegated tasks. If ITI implements integrated actions for Inclusive, Smart and Sustainable Development (ISUD) implementation of project selection responsibilities is obligatory.

A final characteristic of the ITI tool is that it is very flexible in terms of its usage, supporting innovative
and versatile implementation approaches. The voluntary nature and limited prescriptive requirements allow Member States to implement ITI in a variety of territories but, also to target different types of challenges and opportunities.

III. Implementing Territorial Approaches – Two Preliminary Examples

Despite it being early days, several ITI strategies are already in an advanced stage of planning. The two examples described in this section can be considered as ‘advanced’ cases; both have agreed territorial strategies, governance arrangements and implementation structures are in place. The experiences from these two cases demonstrate, on the one hand, the flexibility of the tool, whilst also pointing out some of the shared challenges. ITI Limburg in Flanders is a ‘textbook’ example of the Commission’s intention for an ITI, whereas Six Cities ITI in Finland illustrates a more innovative approach.

1. ITI Limburg – Targeting Economic Recovery

The ITI Limburg\(^8\) is one of three proposed ITI strategies in Flanders.\(^9\) It covers the whole province of Limburg in the North East of Belgium (see Map 1).

The province has a mixed urban-rural character with a total population of around 850,000 and a number of medium-sized cities, of which Genk and Hasselt are the largest. There already exists considerable experience with territorial approaches in the province. In the late 1980s the closure of the coal industry gave rise to reconversion initiatives supported by Europe, the federal state, Flanders and the province. European funding was used for an Integrated Action Plan for Limburg which subsequently was the basis for RECHAR\(^10\) funding as well as Objective 2 programmes (for parts of the province). In short, there is significant experience in terms of working in partnerships and implementing European resources at the province level. The decision to make use of an ITI can be seen in this historic context.

The ITI is implemented against a backdrop of the announcement in October 2012 that the car manufacturer Ford intends to close its plant in Genk at the end of 2014. This is expected to lead to increased challenges on top of the already existing substantial pressure in terms of job creation and economic prosperity that the region faces. As the region’s largest employer, the closure of Ford Genk will have a major impact on the economic fabric and social structures in Limburg. The closure provided an impetus for immediate action, but many of the economic challenges of the region are deeper rooted. Key challenges in Limburg are as follows:

- Employment and prosperity are under pressure;
- The talent pool does not match labour market needs;
- There is a lack of innovation and entrepreneurship as well as insufficient export-orientation;
- There are inaccessibility challenges (road / water / rail); and
- A lack of company finance is a barrier to regional convergence.

In response, the Flemish Government established a council of experts to draft a strategic action plan for the region (\textit{Strategisch Actieplan voor Limburg in het Kwadraat} – SALK) which includes short, medium and long-term recommendations to enhance economic recovery and support sustainable job creation. SALK plays the role of a territorial strategy as required by ESIF Regulations. The plan was presented to the Flemish Parliament in February 2013. Subsequently, at the EU Council meeting on the 7-8 February 2013, it was announced that EU funding would contribute to fund the action plan for the region. It was agreed that €71 million would be provided. EU funding consists of €45.2 million ERDF and €26.7 million ESF. The combination of ERDF and ESF resources is expected to lead to increased leverage. The Flemish Government provides the same amount to co-finance the selected initiatives (see Figure 1).

In Flanders, there is widespread recognition that an integrated development approach is needed to address the challenges faced by Limburg. The SALK has received strong political backing at the Flemish and the provincial level. The Flemish Government decid-

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\(^9\) Others are ITI West Vlaanderen, ITI De Kempen.

\(^10\) The RECHAR Community Initiative provided grants for the reconversion or development of depressed mining areas.
ed to use the ITI tool to channel EU funding and to ensure close coordination with the SALK strategy. The actions identified in the SALK include short and long-term measures. Those actions set out in SALK that are in line with the thematic objectives of the Flemish ERDF and ESF programme can be supported through the ITI (see Figure 1). ERDF resources will be used to support initiatives within the framework of SALK in the fields of: Manufacturing, energy and ‘clean-tech’, technology and science parks, creative industry, construction, healthcare, leisure, and entrepreneurship.

In terms of governance, the Provincial Technical Committee Limburg will, in cooperation with actors from Taskforce Limburg, prepare, implement, and monitor projects within the SALK framework. ERDF project applications will follow mainstream OP procedures in terms of submission and selection. The Monitoring Committee is responsible for final project approval. The managing authority will liaise with local actors but remains responsible for launching project calls and checking eligibility. Coordination between ERDF and ESF managing authorities will take place via an annual high-level forum, which includes all partners.

2. ITI Finland Six Cities (6Aika)- Open and smart services in a city network

6Aika refers to ITI Finland Six Cities and represents open and smart services in a city network. Finland will implement a single ITI strategy covering the country’s six largest cities: Helsinki, Espoo, Vantaa, Oulu, Tampere and Turku (see Map 2). The strategy has three themes:

- **Open innovation platforms** – To enable the creation and testing of new products and services in urban environments and innovation platforms by utilising, for instance, new types of procurement processes;

- **Open data and interfaces** – To help cities open their databanks (e.g. data on environment, transportation, economy, and statistics). In accordance with the ITI strategy, the cities make the data more compatible and accessible through joint public channels; and

- **Open participation** – To create a better opportunity for citizens to participate.

The ITI strategy ‘The Six Cities – open and smart services’ has a significant role domestically, as the participating six cities represent 30 percent of the total population of Finland. These six cities are also the main centres for research, development and innovation activity in the country. In Finland, it is particularly important that the cities network and work together due to relatively small population sizes. Another key benefit of the ITI is that it allows the integration of multiple funds. In addition to the earmarked funding, there is potential to channel further funding from the mainstream programmes towards their implementation.

The strategy for the Six Cities ITI is an urban development strategy as required by article 7 of the ERDF regulations. It was developed by the cities on the basis of their own integrated strategies, was approved by the Ministry of Employment and the Economy. The common challenges for the six cities are to develop better services, to promote competitiveness and to have open and sustainable operational models. The primary purpose of the ITI strategy is to strengthen Finland’s competitiveness by using the largest cities as development and testing grounds for innovation. The strategy is not industry-specific but offers new opportunities to, for example, ICT firms, the security sector, location-based service firms, sen-

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12 This section draws from case study research conducted by Ms Heidi Vironen (EPRC).
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... technology developers, transport service developers, clean- and green-tech solutions, the media sector, and other creative sectors as well as different service sectors. The strategy’s implementation plan for the first three years provides more concrete information on themes and budgets. The second and third phases of the strategy will each last two years. A mid-term evaluation will be carried out by external experts between the different phases (indicators for the projects and the strategy are defined at the start of each phase).

The earmarked ERDF funding for the ITI is €39.46 million. This represents 5% of the Finnish ERDF budget which is earmarked for sustainable urban development (minimum set in Article 7 of the ERDF Regulation). This is matched by an equivalent amount of domestic funding (consisting of approximately 33% municipal (city) funding and 17% State funding, see Figure 2). ESF funding is not earmarked. Rather, decisions on ESF funding will be taken by the regional management committees in the individual regions as part of the implementation of their regional strategic programmes.

ERDF projects are first appraised by a Steering Group, consisting of representatives of the cities, experts, and funding bodies. It scores applications in accordance with programme selection and call-specific criteria. Project proposals are then presented to the Management Group, i.e. the ITI strategy’s highest decision-making body. It is composed of one representative from each participating city. After this, project proposals are submitted to the Helsinki-Uusimaa region (acting as Intermediate Body), which is responsible for making the technical funding decision on the basis of the decision of the management group. ESF projects are processed in accordance with mainstream project procedures with the funding body taking all the decisions (i.e. the ELY-centre in Häme). ERDF and ESF activities are, however, dealt with jointly in the ITI management group, and the OP funding bodies work together with regard to the monitoring of ITI objectives. The Six Cities Strategy Office is responsible for the operational aspects of the ITI, namely by supporting the management and implementation of the strategy.

Within the individual cities, ITI activities are coordinated between a representative of the Management Group, the Steering Group and the coordinator of the Six Cities Office. Each city is responsible for organising its activities in accordance with its specific organisational model.

IV. Some Initial Lessons: More Differences Than Similarities?

The two examples above first and foremost highlight the flexibility of the ITI tool. Both are based on an integrated use of ESI Funds and have a designated territory and development strategy but that is where the similarities end.
The Finnish ITI has an explicitly urban focus whereas Limburg targets a sub-region that consists of rural and urban areas. The SALK strategy, the basis for the ITI Limburg, focuses on economic recovery of an area, which in the Flemish context is less developed and faces some structural economic challenges. The Six Cities strategy focuses on more developed territories. Furthermore, the ITI Limburg builds on considerable past experience in terms of supporting integrated actions with European funding. In the case of Finland, the separate administrations have experience with territorial approaches but the city network approach is novel.

In terms of governance, there are also significant differences between the two ITI strategies. As the Finnish ITI is used to implement the country’s sustainable urban development obligations, a number of responsibilities have to be delegated to urban authorities under Article 7 of the ERDF Regulation (most significantly project selection). The Helsinki-Uusimaa region will act as an Intermediate Body which will formally decide which projects are funded although, actual decisions on funding decisions are made in the Management Group.

In Flanders the actions identified in the SALK strategy go beyond the ITI whereas the Six Cities urban development strategy was specifically developed for the ITI. In order to ensure that the ITI will only fund those actions that are in line with the Flemish ERDF OP, the formulation of calls and decisions on project selection are taken centrally. However, close liaison between the managing authority and provincial authorities will take place throughout implementation.

Related to issues of devolving responsibilities are questions concerning monitoring and evaluating the contribution of territorial strategies to the overall programme objectives and, in the end, Europe 2020 strategic goals. Despite increased attention for territorial approaches, the majority of ESI funding is programmed sectorally as required by the regulations and Common Strategic Framework. Considering the novelty of territorial approaches in general, their contribution to the overall programme objectives needs to be closely monitored and evaluated in which the challenge of aligning these approaches to overarching sectoral strategies that are centrally implemented should be a major focal point.

Both ITI strategies are perhaps more similar when considering some of the implementation challenges. First, there are concerns about institutional and administrative capacity, particularly as responsibilities for implementation are delegated to local bodies which often have limited expertise or resources to implement projects. These concerns about capacity are also linked to the perceived increased complexity of the ESIF Regulations. The introduction of ITI in Flanders has raised concerns regarding the increased administrative burden on the Programme. The Flemish ERDF OP is relatively small and a large proportion of its funds will be channelled through ITI. As the approach is quite experimental, its impact cannot yet be completely understood.

In Finland, having sufficient levels of capacity in the different bodies involved in ITI implementation is also considered a potential challenge. Human resources are limited in cities and regional councils; this is made more critical due to the newness of ITI as a tool which has already led to some delays. However, the ITI strategy office has a good number of highly-skilled people to facilitate implementation. The flip side of this coin is that ITI offers an oppor-
tunity to build up institutional and administrative capacity at the local level.

Another major issue is that territorial approaches can lead to competition between territories as the supposedly ring-fenced budgets are considered appealing, enabling long term planning and giving the perception of more autonomy on how the funds are allocated. The preparation of ITI Limburg has encouraged other regions in Flanders to put forward proposals for an ITI. Whereas in Limburg there are clear governance structures and a strategic framework (thanks to the SALK), in other areas this is not always the case and may lead to implementation difficulties. In Finland there are also some questions about the extent to which the cities will be able to work effectively on common matters rather than primarily pursuing their own interests. Territorial approaches have the potential for a heightened awareness of territorial interests.

There are challenges in relation to the scale of funding allocations and impact of territorial approaches. In most Member States, the level of funding allocated to ITI (and territorial approaches more broadly) is quite limited, raising questions about their impact. In Flanders the total ERDF budget reserved for ITI is proportionally large (43% to three ITI strategies) but the Programme itself is relatively small (€173.6 million). In Finland, the ERDF budget for the ITI makes up around 5% of the total Programme’s budget. Considering that the six cities represent 30% of the population, the scale is also limited here. However, the narrow definition of the strategy offers scope for targeted implementation. Furthermore, the cities included in the ITI can also apply for projects in the broader Programme.

One of the criticisms of the ITI tool is that it comes with very little guidance from the European Commission. Considering the flexible use of the tool, illustrated by the examples above, it is not surprising that drafting generic and detailed guidance is challenging. Instead a workgroup, Territorial Cohesion and Urban Matters (TCUM), has been established consisting of representatives of the Member States from relevant national institutions involved in the issues of territorial cohesion, urban development and spatial planning: This is led by the Commission (DG Regional and Urban Policy). The work group’s role is advising the Commission and the Coordination Committee for European Structural and Investment Funds (COESIF) as regards implementation of the territorial and urban aspects of the regulations governing the Structural and Cohesion Funds. The work group is developing comprehensive examples ‘showing the use of the ITI mechanism in a practical way but at the same time underlining its connection and relevance to the wider concept of territorial integrated approaches’. These scenarios serve two purposes: To provide inspiration with regards to the possibilities of ITI and to provide some clarifications in terms of implementation requirements.