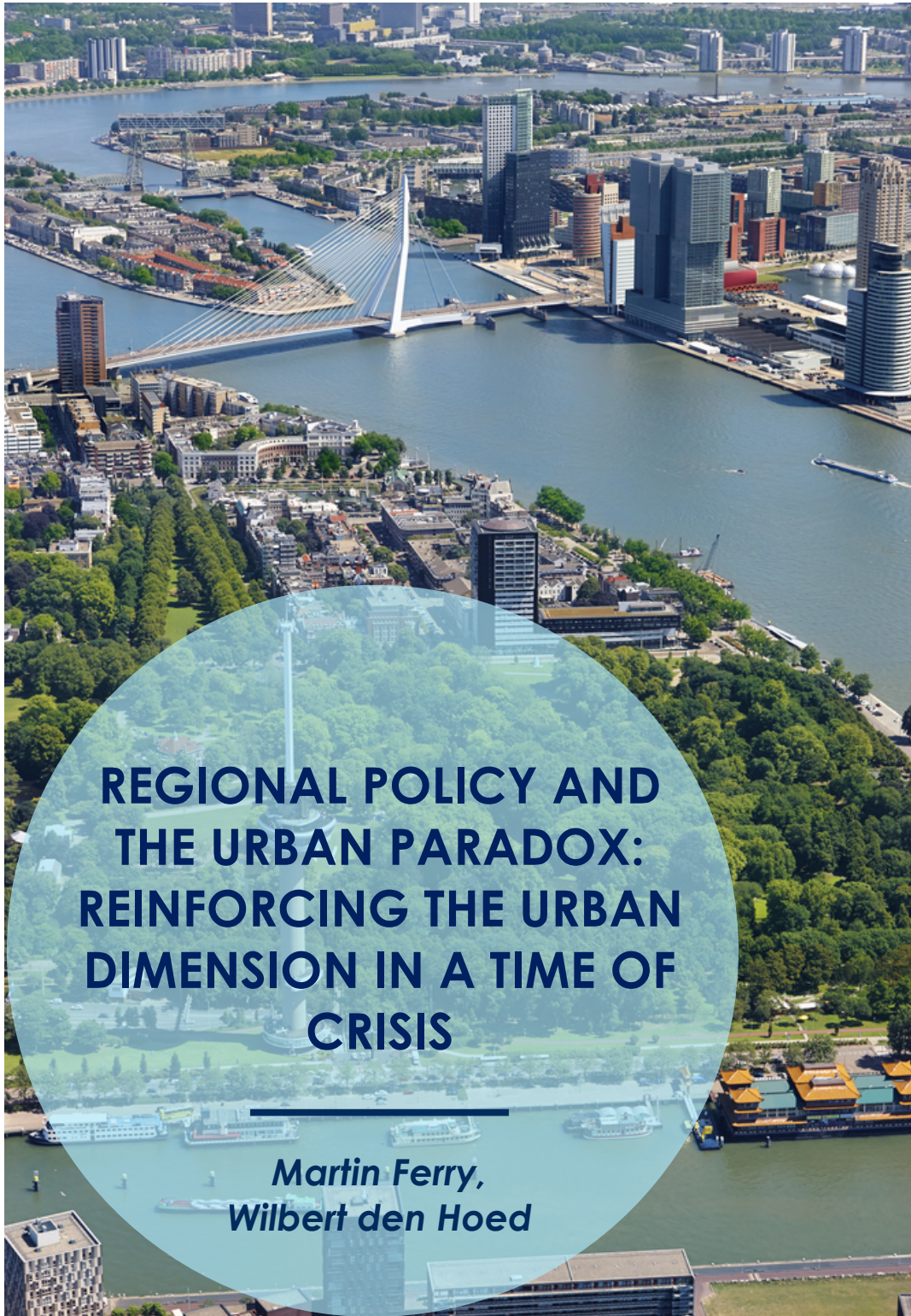




# EoRPA

European regional policy  
research consortium



## REGIONAL POLICY AND THE URBAN PARADOX: REINFORCING THE URBAN DIMENSION IN A TIME OF CRISIS

*Martin Ferry,  
Wilbert den Hoed*

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European Policies Research Centre  
School of Government and Public Policy  
University of Strathclyde  
40 George Street  
Glasgow G1 1QE  
T +44(0) 141 548 4898  
T +44(0) 141 548 3061  
E [eprc@strath.ac.uk](mailto:eprc@strath.ac.uk)  
W <http://www.eprc-strath.eu/>

Stichting EPRC Delft  
Faculty of Architecture and the Built  
Environment,  
Technische Universiteit Delft  
Julianalaan 134  
2628 BL Delft  
T: +31 (0) 15 27 86093  
E: [info@eprcdelft.eu](mailto:info@eprcdelft.eu)  
W: [www.eprc-strath.eu](http://www.eprc-strath.eu)

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# EXECUTIVE SUMMARY

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Long-term processes of urbanisation and agglomeration in Europe pose complex but crucial questions for regional policymakers. There are substantial national and sub-national differences in the size and spatial distribution of urban developments and the pace and direction of urbanisation but a fundamental challenge is how to address the 'urban paradox'. This means simultaneously supporting the economic engine of urban agglomerations while counteracting social and economic inequalities arising within urban areas and between urban centres and other territories.

Global 'megatrends', including digitalisation and technological progress, demographic transition and climate change have specific urban impacts that further underline the importance of regional policy interventions in urban development processes. Increasing policy attention is also being paid to the role of so-called 'second order' or medium-sized towns outside of large urban agglomerations in supporting territorially balanced development.


In designing interventions that address urban development processes, regional policymakers must engage with a range of economic, social and environmental issues and measures which often overlap in terms of scope, spatial scales, remits and

priorities. Regulatory, institutional or administrative barriers must also be overcome. Recent regional policy initiatives are responding to this by following the 'place-based' model and pursuing an integrated approach.

Integrated interventions are capturing complex interactions between urban and regional development. Policy governance initiatives, including organisational reforms at national or sub-national levels and increasingly prominent negotiated or 'deal based' structures are coordinating inputs from national, regional and urban stakeholders. New development strategies are providing frameworks for increased coordination of regional and urban priorities, either through delineating functional spaces or by setting specific thematic objectives, for instance covering the role of cities in innovation or sustainable development. Particularly prominent in these interventions are the exploration of urban-rural linkages, the evolution of the 'smart city' agenda and the use of negotiated city-region strategies.

The COVID-19 crisis is raising important questions for policymakers addressing the relationship between urban and regional development. There are strong arguments for further integration but the pressures created by the pandemic could prompt policy divergence.

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# 1 INTRODUCTION

Processes of urbanisation and agglomeration are integral to contemporary regional policy. The relationship between agglomeration processes in urban areas and regional economic development is both a subject of ongoing academic debate and a crucial issue for policymakers. Centripetal forces (related to economies of scale, availability of labour, etc.) and flows of local knowledge, ideas and innovations in urban agglomerations make them important centres of economic growth. There are arguments in economic geography that this growth in urban agglomerations can drive regional development through positive externalities or 'spillovers' from large urban centres into other territories.<sup>1</sup> However, agglomeration processes create negative externalities and centrifugal processes. Rapid expansion of booming cities leads to congestion, pressure on housing and other assets, and the entrenchment of inequalities within urban areas. There is also the negative impact on people and places 'left behind' by agglomeration processes. This can be acute in areas of decline where out-migration of the young and higher skilled leads to demographic imbalance and severe social deprivation. Persistent inequalities in less developed areas raise issues of spatial equity, territorial cohesion, distributional conflicts and political pressures. Thus, the agglomeration economy in itself may be neither necessary nor sufficient for sustainable, balanced regional growth. Supporters of the 'place-based' policy approach point to these pressures and argue that regional policy should work to exploit the endogenous potential of different territories, drawing on local human capital and local innovation across urban and non-urban areas.<sup>2</sup>

Therefore, at the heart of regional policy's relationship with urbanisation and agglomeration processes is a paradox. Large urban environments concentrate wealth and employment opportunities that help drive regional development, but they also host high levels of poverty and labour-market exclusion that potentially entrench inequalities across regions. The challenges and opportunities resulting from this are underlined by the territorial impact of global transformation processes of digitalisation, demographic shifts and climate change, each of which has a distinct urban dimension. The recent outbreak of the COVID-19 pandemic also highlights how centripetal and centrifugal processes at work in urban areas affect broader development trends, highlighting the importance of regional policy engagement.

The aim of this paper is to explore how regional policy is intervening to address the relationship between urban development processes and broader regional economic development. What are the key urban issues and challenges for regional policy makers, what measures are being used to address them? Can new policy thinking on the role of urban areas in regional development policy be identified? Section 2 of the paper sets the context by highlighting how long-term processes of urbanisation in Europe take a territorially differentiated form across and within countries and how this raises fundamental issues for regional policy. Section 3 provides an overview of regional policy responses to the challenge of addressing the urban issues, focussing particularly on initiatives launched over the past 12-18 months. These include policy governance measures and strategic frameworks that integrate regional and urban



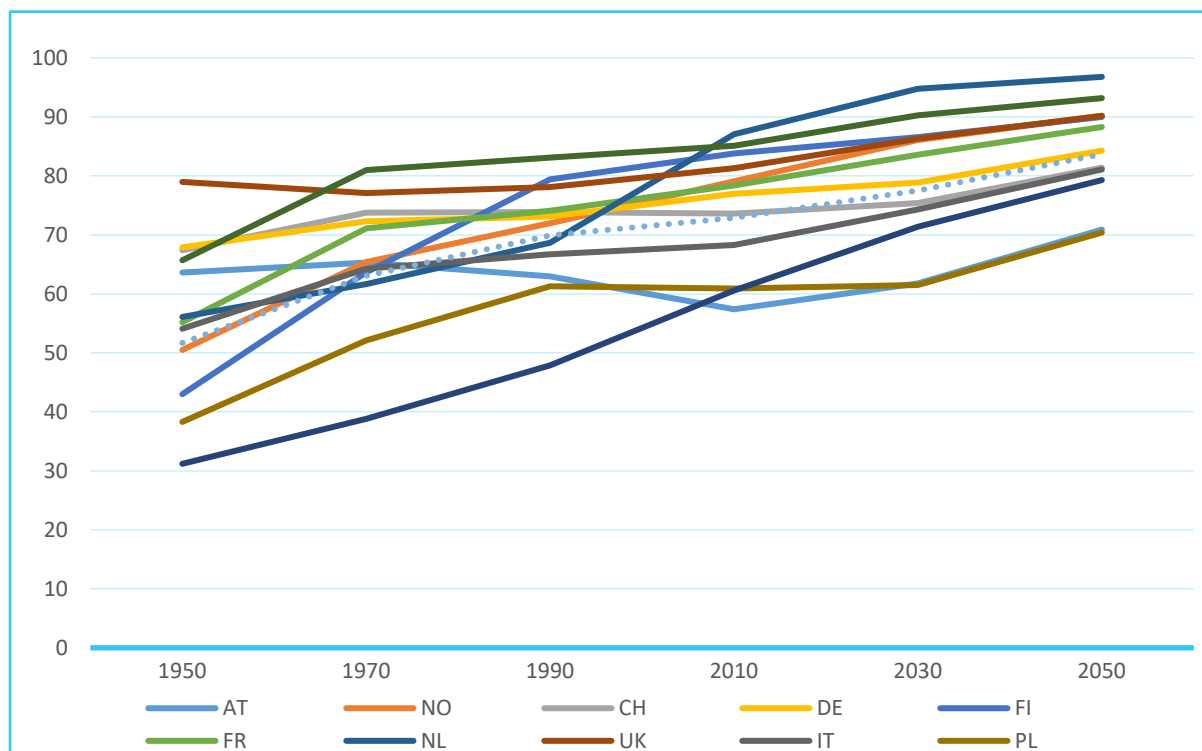
development agendas and measures. Drawing on this overview, Section 4 focuses down on three prominent types of current intervention: the strengthening of urban-rural linkages, the evolution of the 'Smart City' and the use of city-region structures. Illustrated with specific country examples, the section provides more detail on how urban issues are incorporated into contemporary regional policy in practice. Section 5 offers preliminary reflections on the potential impact of the COVID-19 pandemic on the role of urban areas in regional policy. Finally, Section 6 draws conclusions by identifying the opportunities and challenges for regional policy interventions in the urban domain.



## 2 URBANISATION IN EUROPE: A LONGSTANDING BUT TERRITORIALLY DIFFERENTIATED PROCESS

Europe is a highly urbanised continent. Urbanisation processes have been underway in some European countries since the 18<sup>th</sup> century. Trends over the past seven decades show a decline in the share of population living in rural areas over the total population, while towns and cities have experienced a constant increase. This general process is anticipated to intensify in the future, with the level of urbanisation in Europe expected to increase from 74 percent in 2015 to 84 percent in 2050 (see Figure 1).<sup>3</sup>

**Figure 1: Urbanisation trends in European countries, 1950-2050 (% of population in urban areas)**



Source: United Nations (2018) *World urbanisation Prospects, 2018*, <https://population.un.org/wup/>.

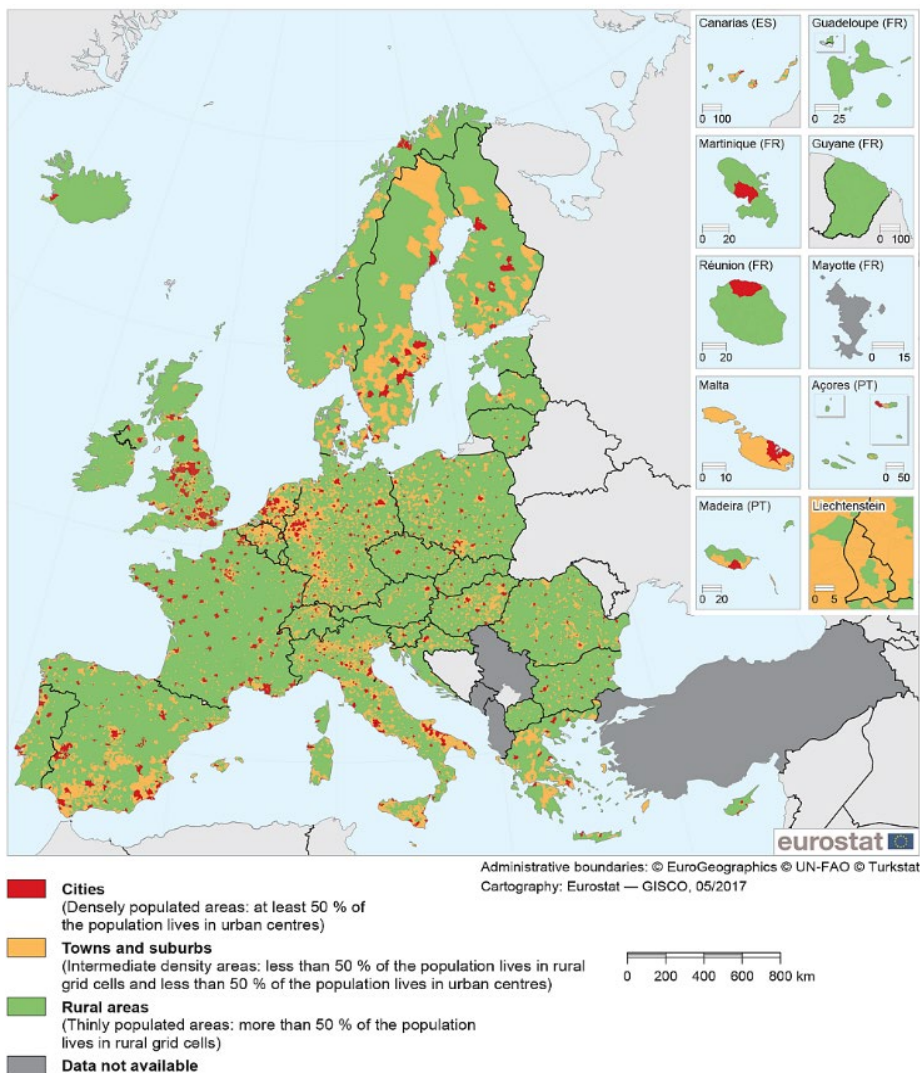
**At the same time, urbanisation is territorially diffuse.** There are considerable national and sub-national differences in the size and spatial distribution of urban developments, the scope of metropolitan areas, the scale of capital cities and so-called 'second order' cities, and the presence of urban areas in rural regions. As Figure 2 shows, there is significant variation in terms of patterns of urban density:

- **Highly concentrated urban populations** can be identified from south-east England, through the Flanders region of Belgium, into the Netherlands and Nordrhein-Westfalen in Germany. This area is characterised not only by high levels of population density, but also by its transport infrastructure and location close to Europe's largest markets.



- **An intermediate level of urban population density** exists across much of France, northern Italy, Germany, Denmark, Poland and the Czech Republic, with urban development regularly spread across much of their territory.
- **More dispersed urban settlements** are apparent in Spain, Portugal, southern Italy and Greece, as well as Nordic countries. These areas are characterised by relatively few, sporadic urban developments. Larger urban areas are predominantly located around capital cities and the coastline, while interior regions are very sparsely populated.

**Figure 2: Spatial distribution of urbanisation in Europe (2017)**



Source: Eurostat.<sup>4</sup>

There is strong sub-national differentiation in the *processes of urbanisation* as well.

- **Most European regions hosting major cities have experienced urban population growth in recent decades.**<sup>5</sup> Over the past twenty years, the largest disparities between population growth rates for predominantly urban regions and predominantly rural



regions, and therefore the fastest transformations towards a more urbanised society, have been experienced in Baltic and Nordic countries.

- **However, some of Europe's functional urban areas are projected to have lost population by 2030**, often because large cities absorb residents from surrounding smaller cities or towns. Research published by the OECD illustrates how the combination of a decline in population, economic capacity and employment opportunities leads to a complex shrinkage process from which cities struggle to escape.<sup>6</sup> Population decline is foreseen in some cities in the Iberian Peninsula, and in clusters of regions throughout Eastern Europe and Germany.
- **Decline of some urban regions in Central and Southern Europe is due in part to migration.** Some urban regions in these countries have seen population decline, notably following the accession of Central and Eastern European countries to the EU in 2004. This may be explained, at least in part, by a broad process of outmigration to other parts of Europe. For instance, in Latvia and Lithuania (and Poland to a lesser degree), the reduction in the number of inhabitants in predominantly urban regions was reproduced in rural regions too.



## 3 REGIONAL POLICY AND THE 'URBAN PARADOX'

### 3.1 What are the implications of urbanisation processes for regional policy?

**Policy plays a crucial role in managing the relationship between these urbanisation processes and broader regional economic development.** However, this often involves difficult policy choices and trade-offs: between 'place-neutral' and 'place-based' policy rationales and a spatial focus on large urban centres or so-called 'second order' cities and towns. These policy decisions cover a range of economic, social and environmental measures, with increasing policy attention on how these can be coordinated to cover complex functional linkages between places and people.



**A key challenge for regional policymakers is to address the 'urban paradox'.** This means sustaining the economic engine of growing urban agglomerations while at the same time counteracting disparities arising within urban areas and between urban centres and other areas. Up until recently, dominant economic geography theories and related policy approaches such as growth pole strategies argued that less-favoured, peripheral areas would benefit from knowledge spillovers from and increased connectivity to growing urban centres.<sup>7</sup> This view supports a **'place-neutral' policy approach**, set out in the World Bank's arguments that policies should emphasise people over place and that, because growth and development are inevitably unbalanced, it is counterproductive to attempt to shift that market balance.<sup>8</sup> Cities and metropolitan areas often act as engines for economic growth and knowledge-intensive businesses. Production, knowledge, innovation and economic growth concentrate in urban areas. Their strength is reinforced by agglomeration effects arising from population density and accessibility, such as clusters of highly educated people, entrepreneurship, knowledge infrastructure and cultural amenities. Favouring frequent connections and proximity, cities are places where the diffusion of knowledge and public goods provision contribute to economic growth and wellbeing. Under this rationale, policies addressing urban development should emphasize "space-blind" provision of universal public services such as education and social services and general infrastructure investment for connectivity with only very limited use of explicitly spatially targeted interventions.<sup>9</sup>



**More recent academic debates and policy initiatives have stressed place-based approaches in considering the relationship between urbanisation and regional development.** This argues that urban and regional policies need to be more sensitive to local context and local specificity, taking into consideration, for example, the endogenous factors that influence innovation and development in different types of place, including those outside large cities.<sup>10</sup> This reconsideration has been driven by several factors. First, there is awareness that the economic benefits of agglomeration are not unlimited. Large cities can reach a point where diseconomies make them less competitive because of the negative externalities caused by unregulated growth and diminishing returns.<sup>11</sup> Moreover, research has

struggled to find strong evidence of diffusion or spillover effects from investment in large urban centres to outlying areas, indicating that the polarising effects of this are considerably stronger than the convergence effects.<sup>12</sup> Urban areas display large socio-economic disparities within them. Wealthier cities tend to be more segregated by income than less wealthy cities.<sup>13</sup> Major obstacles to regional economic growth, such as social exclusion, poverty, and environmental degradation, are also part of the urban setting. Rapid population growth in urban areas can contribute to territorial imbalance, socio-economic inequalities and environmental threats.

**The limitations of metropolitan growth models have been underlined by the urban impact of global processes or 'megatrends'** of technological progress, demographic transition and climate change.<sup>14</sup> New technologies are increasing the importance of the knowledge-based service economy and this often results in a concentration of labour in urban areas. Economic benefits are more likely to be clustered in a few places when value creation relies on new technologies, thus risking income segregation, problems with housing affordability, 'digital divides', and issues of social and territorial cohesion in urban areas and beyond.<sup>15</sup> Ongoing processes of demographic ageing, internal mobility and international migration also have a clear impact on the development of urban areas - larger cities tend to have some of the lowest shares of population over 65.<sup>16</sup> Similarly, cities play an important role in tackling climate change. The exposure of urban areas to climate and disaster risk increases as they grow. At the same time, cities are home to many of the communities (spatial and social) and critical infrastructure most vulnerable to the effects of global warming. A growing focus on urban quality of life and personal wellbeing highlights the importance of these social and environmental issues beyond considerations of economic growth.<sup>17</sup>

**There is increasing research and policy interest in the role of so-called 'second order' or medium-sized towns in regional development.** Since the global financial crisis, some medium-sized urban areas have displayed favourable annual gross domestic product (GDP) growth, enjoying increasing economic returns. These have often taken advantage of decentralisation of powers and resources and the spatial deconcentration of public investment.<sup>18</sup> In contrast, other medium-sized towns have encountered significant economic difficulties, for instance losing major employers and experiencing outmigration. These smaller sized towns, especially those outside the commuter hinterland of large cities, are potential 'anchors' for less urbanised regions. This supports a policy approach that balances the need to increase the efficiency of public investments by concentrating them in growth 'hubs', whilst addressing the desire to promote more balanced territorial development trends.<sup>19</sup>

In addressing the urban paradox, regional policy draws on a range of economic, social and environmental themes and related measures (see Table 1). The key point from a policy perspective is that the place-based model requires measures to be designed and delivered in an integrated way, tailored to different territorial contexts. **Capturing the interplay of urban and regional development processes requires that policy is coordinated across space, function, and time.**<sup>20</sup> Policy needs to be integrated functionally, i.e. covering socio-economic development, planning, land and building regulations, infrastructure and utility and public service provision. This requires strategic coordination and integrated governance across and



between local, regional, and national government levels. Section 3.2 explores recent strategic and governance initiatives that are strengthening this integrated approach.

**Table 1: Regional policy and urban development – interventions and measures**

Intervention areas	Potential measures
<b>Competitiveness, resilience of urban areas</b>	<ul style="list-style-type: none"> <li>• Responses to global structural adjustment in employment and labour market measures</li> <li>• Role of urban areas in regional innovation systems</li> <li>• Job matching in cities and hinterlands</li> <li>• Location of public employment outside of large cities</li> </ul>
<b>Urban-rural interactions</b>	<ul style="list-style-type: none"> <li>• Managing ruralisation-urbanisation processes</li> <li>• Supporting the role of rural spaces within larger urban areas</li> </ul>
<b>Social inclusion in cities</b>	<ul style="list-style-type: none"> <li>• Access to support infrastructures and services</li> <li>• Participative urban regeneration schemes</li> <li>• Targeted measures for social groups (migrants, youth, etc.)</li> </ul>
<b>Urban and regional governance</b>	<ul style="list-style-type: none"> <li>• Multi-level structures and processes to coordinate urban and regional measures</li> <li>• Participatory processes and tools for communities</li> <li>• Capacity-building for inclusive governance across urban areas and hinterlands</li> </ul>
<b>Urban environment and climate change</b>	<ul style="list-style-type: none"> <li>• Sustainable cities and the low carbon agenda</li> <li>• Setting sustainability indicators</li> </ul>
<b>Infrastructure</b>	<ul style="list-style-type: none"> <li>• Regeneration and neighbourhood rehabilitation</li> <li>• Affordable housing</li> <li>• Connectivity of cities, urban mobility, access to public transport</li> <li>• Strategic, participative and responsive spatial planning</li> </ul>

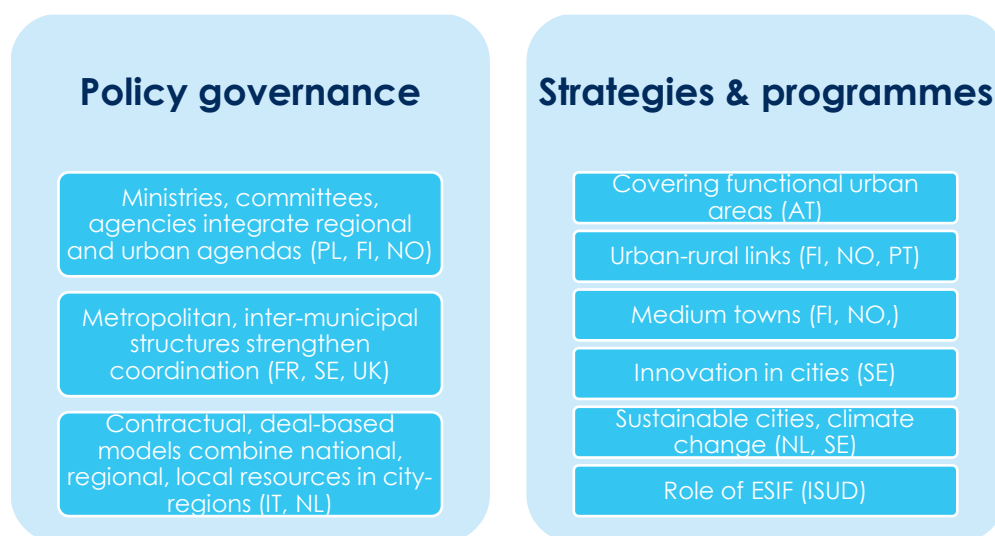
## 3.2 Integrated regional policy responses to urban issues: an overview of recent initiatives

**Regional policymakers are recognising the importance of taking an integrated approach to addressing the ‘urban paradox’, reflected in governance arrangements and strategic initiatives.** It should be noted from the outset that regional development and urban development are often treated in countries as separate and autonomous policy fields, addressing multiple issues at different territorial and administrative scales. Nevertheless, in response to the issues and trends noted above, recent regional policy initiatives are strengthening coordination between these fields. Integrated measures are being designed to target cities as motors of regional development, to strengthen urban-rural or city-regional cooperation, to provide better services levels (e.g. public transport, healthcare), and improve the management of natural resources. These efforts involve new, coordinated governance arrangements and integrated strategic frameworks and programmes (see Figure 3).





**Figure 3: Integrated regional policy responses to urban issues – recent initiatives**



### 3.2.1 Coordinating regional and urban policy governance



**Policy governance arrangements are frequently being used to integrate regional and urban development agendas.** At the *national* level, this is pursued through ministerial reorganisation or the work of cross-sectoral agencies and committees.

- In **Poland**, the Ministry for Development Funds and Regional policy provides an overarching structure for integrating regional policy and urban policy measures. Alongside the National Strategy for Regional Development, the ministry is responsible for the National Urban policy and packages of measures to support urban authorities in programming and implementation of revitalisation.
- In **Finland**, cooperation is underlined as an important element in urban policy work. The Ministry of Economic Affairs and Employment has set up an Urban Policy Committee for this purpose. The multidisciplinary and cross-sectoral composition of the Committee reflects the need to address urban issues from a wide range of perspectives.
- In **Norway**, the wide-ranging portfolio of the Ministry for Local Government and Modernisation (KMD), including regional policy, physical planning and institutional reform increases the scope for integrating urban and regional development measures. This arrangement has shaped debates on the relationships between urban areas and their hinterlands.

**At sub-national levels, recent governance initiatives involve the development of metropolitan or cross-municipal cooperation structures** in order to improve the coordination of urban and regional policy initiatives and minimise complexity, policy overlap, and administrative fragmentation.

- Several countries have implemented metropolitan reforms over the past decade, including at the national scale (e.g. **France**) and in specific regions (e.g. in **England**).<sup>21</sup>



- In **Sweden**, a Parliamentary Committee report delivered in 2020 assessed that strategic inter-municipal cooperation can result in increased efficiency and, in turn, strengthen the municipal capacity. It explores different options, including voluntary municipal mergers, more strategic inter-municipal cooperation and the launch of pilots allowing municipalities to test possible new measures designed to strengthen their capacities.

**Contractual or ‘deal-based’ arrangements between government levels are an increasingly common means of coordinating regional and urban development investments.** This concerns the pooling of resources from different jurisdictions and the coordination of investments to foster functional linkages between larger urban centres and their hinterlands to develop city-regions as innovation hubs and sources of balanced economic growth. 4.3 has a more detailed assessment of this arrangement.

- In **Italy**, ‘Pacts for Development’ are an inter-institutional territorial cooperation tool for the implementation of interventions that cover metropolitan cities and regions in the South of Italy but have also been extended to cover the Centre-North regions. They are signed by the national government and regional Presidents or Mayors of the metropolitan cities and include a focus on integrated urban development. They compromise between potential fragmentation of decentralised programming and the top-down approach of national interventions.
- In the **Netherlands**, City Deals have been developed within the framework of the Urban Agenda (Agenda Stad). They have a thematic orientation, such as energy transition, social cohesion, or circular economy, and usually involve several cities based on partnerships between public, private and civil society organisations.

### 3.2.2 *Integrated strategies and programmes*



**Development strategies and programmes are providing valuable means of bringing regional and urban agendas together.** Emerging regional policy frameworks and strategies in several countries are promoting new approaches to geographical coverage (functional urban areas, urban-rural linkages, polycentricity) and the role of cities in driving innovation and sustainable development.

In terms of *spatial coverage*, regional policies are increasingly adopting a logic that treats **urban areas as part of different functional spaces**. The delineation of areas based on functional linkages takes into account policy issues and socio-economic interactions that cut across administrative boundaries. This reinforces the role of urban areas in broader regional development, such as in the following examples.

- **Exploring functional urban areas.** Although there is no nationally funded domestic regional policy in **Austria** and there is no urban policy as such at national level, the Austrian Spatial Development Concept (ÖROK) plays an important role bringing together federal government, the Länder and municipalities to coordinate spatial

development, incorporating urban themes. Over the past decade, several working groups and projects relevant to city regions have resulted in the publication of a strategic document on city-regional cooperation, the *Agenda Stadregionen* (see 4.3).<sup>22</sup>

- **Strengthening urban-rural linkages.** Recent initiatives in several countries are focussing on the complex relationships between urban and rural territories. These linkages are increasingly seen as reciprocal, with rural hinterlands regarded as vital partners for urban centres in sustainable development (e.g. in **Norway**). More coherent linkages are being pursued to address labour market issues in **Finland**, to strengthen territorial cohesion and facilitate better access to amenities and different types of services (also in **Portugal**, see 4.1 for more detailed assessment).
- **Focusing on medium-sized or small urban centres.** Strategies and programmes are addressing development challenges in smaller urban centres resulting from changing structural conditions, demographic change, etc. with the aim of strengthening their role in driving regional development and contributing to territorial cohesion. In **Poland**, the National Strategy for Responsible Development and the new National Strategy for Regional Development 2030 outline a package of measures for medium-sized cities in which development opportunities are often constrained and weakened by structural economic change, demographic shifts and institutional weaknesses. In **Finland**, the 'Regional City' programme (*seutukaupunkiohjelma*) addresses smaller cities with regional importance in order to strengthen their role in regional development.

**In several instances, these strategic frameworks include a distinct thematic orientation addressing the urban impact of ongoing global processes or 'megatrends' of technological progress, demographic transition and climate change.**

- **Innovation, a central theme of current regional development policy, is frequently framed around cities.** In several countries, Regional Innovation Strategies and Smart Specialisation Strategies are important components of regional policy, aiming to strengthen cooperation between the private sector and research communities to stimulate growth and tackle societal problems (energy care, transport, health care or social care). Cities are clearly important in this as they are often the primary location of these key stakeholders and usually have important competences in the provision of these services. The 'Smart City' agenda also highlights the innovative potential of urban areas and has begun to focus on utilising digitalisation and technology to support more equitable development (see 4.2 for more detail).
- **Sustainable development and climate change are increasingly prominent issues in regional policy strategies and the role of urban areas is emphasised.** In **Finland**, the Sustainable City programme aims to address challenges of the cities related to sustainable development and disseminate good practices in carbon-neutral initiatives, social sustainability and health. The implementation of the strategy will involve regional development funding, however, its territorial focus is on major urban centres.<sup>23</sup> The



**Dutch** Delta Plan for Spatial Adaptation distinguishes between climate change effects on cities and rural areas. The **Swedish** National Strategy for Sustainable Regional Growth and Attractiveness 2015-20 stresses the differentiated opportunities of urban versus rural areas in terms of developing innovative responses to climate change. The Sustainable City programme Sweden - Liveable Cities (2018- ) reflects increasing policy attention on the ongoing urbanisation in Sweden and the importance of cities in promoting sustainable growth.



**Strategic initiatives funded by EU Cohesion Policy (CP) recognise the importance of placing urban development within a wider regional policy context.** Prominent examples are the urban and territorial strategies supported by CP: Integrated Sustainable Urban Development (ISUD), Integrated Territorial Investment (ITI) and Community Led Local Development (CLLD). In particular, ISUD ring-fencing of CP funding for integrated strategies are addressing economic, environmental, demographic and social challenges in urban areas. Many of them are targeting small and medium-sized towns in rural territories, functional urban areas, urban settlements in polycentric networks and urbanised areas. This approach empowers urban authorities to develop strategies that are multi-sectoral, that delineate a functional territorial perspective, that delegate management tasks to the local level and that combine support from different funds, programmes or priorities. Urban authorities have responded to this opportunity: of the €81 billion of CP investment in urban areas by the end of 2018, cities had chosen projects worth around €10.8 billion, implemented through more than 900 ISUDs.<sup>24</sup>



## 4 URBAN DIMENSIONS OF REGIONAL POLICY: LINKAGES, SMARTNESS AND CITY-REGIONS

Recent regional policy responses to the urban paradox are intervening at the level of functional linkages between places and people. The overview of recent initiatives in Section 3 underlined how integrated policy governance and strategic frameworks are facilitating this interaction, highlighting approaches that are high on the regional policy agenda across Europe. These include: **developing urban-rural linkages, developing the 'smart city' agenda and the use of city-region frameworks.** This section explores why such approaches are currently so significant, providing examples of countries where they are underway and of the measures they comprise to ensure successful implementation.

### 4.1 Reciprocal development through urban-rural linkages



**Regional policy is recognising that urban and rural territories are interconnected through complex linkages that often cross traditional administrative boundaries.**

Effective rural-urban partnerships help support regional collaboration, interdependence and interconnectivity in both areas. Stronger connections facilitate better access to jobs, amenities and various types of services. Urban-rural partnerships help regions to enhance the production of public goods, achieve economies of scale in public service provision, facilitate new economic opportunities, and allow labour mobility to align the workforce and the locations of jobs.<sup>25</sup> Moreover, policymakers are increasingly aware that global challenges of climate change, demographic shifts and resource scarcity are shared issues for both urban and rural areas. Emerging challenges around mobility, physical and digital infrastructure, renewable energy, circular economy, green and recreational spaces, and health and social care, are shared at both scales.

To capture these interactions, academics and policy practitioners are increasingly moving beyond the traditional urban-rural dichotomy, which is regarded as rather simplistic.<sup>26</sup> Nevertheless, cooperation may be difficult when there is a large difference in size, resources, the sectoral profile of economies, and local administrative capacities between predominantly urban and rural areas. Other barriers to effective partnerships include regulatory and political obstacles, lack of trust and policy fragmentation. **Against this background, several current regional policy initiatives are integrating interventions in urban and rural areas to develop synergies and find common solutions to shared challenges.**



Labour market integration has been an important objective in the development of urban-rural linkages in **Finland**. This has involved efforts to distribute the economic interests of knowledge-intensive industries across a wider regional territory. A recent study on labour mobility in the Helsinki-Uusimaa region (including 26 municipalities) revealed a trend towards clustering over relatively large distances, particularly outside of major cities and inside semi-urban and rural areas.<sup>27</sup> Although locational choices and ties to other firms are made in line with business criteria, public authorities have the opportunity to cooperate with the construction and transport sectors and create conditions for the co-location and accessibility



of businesses in more rural settings. These linkages are of particular importance to the Finnish case, given the expected growth in urbanisation, coupled with depopulation and ageing population challenges elsewhere in the country.<sup>28</sup>



A joint instrument in **Switzerland** between the Agglomeration Policy and the Policy for Rural and Mountainous Areas was piloted in six regions between 2017 and 2019. The pilot was launched as 'PHR Wirtschaft' (*Pilotprogramm Handlungsräume Wirtschaft*), with a total federal contribution of CHF 3-4 million.<sup>29</sup> The PHR is based on the 2012 spatial development framework, which identified 12 'action areas' with the aim to implement business-oriented projects that link urban and rural areas. The PHR Wirtschaft initiative resulted in six projects in the action areas around metropolitan clusters (Zurich, Bern region, tri-national Basel area), but also in wider and more sparsely populated territories (Lake Geneva region, Jurabogen). The programme brought together the State Secretariat for Economic Affairs (SECO), the Federal Office for Spatial Development, and the Federal Office for Agriculture. In terms of content, the PHR Wirtschaft has enabled good projects that are in line with the Swiss New Regional Policy. Although the pilot was evaluated positively, it was decided not to continue the PHR at the end of its term in 2019. Challenges arose due to the artificial rather than the functional character of the action areas and the mismatch with existing instruments.<sup>30</sup> Nevertheless, the approach of using a cross-policy programme initiative to reinforce rural-urban networks is increasingly important in the context of complex challenges in a globalised economic environment, in which sectoral policies are increasingly reaching their limits in a regional policy context.<sup>31</sup>



Regional policy in **Portugal** has taken a more macro-level approach to the prioritisation of urban-rural linkages, including in the logic of correcting territorial imbalances by boosting the development of the interior areas which are facing challenges of depopulation, reduced economic growth and desertification. The promotion of urban-rural partnerships has been one of the central themes in the National Programme for Territorial Cohesion and its successor programme – the Interior Enhancement Programme, acting as a framework to bring together the various policy measures targeting interior areas, whether funded domestically or with ESIF support. Furthermore, the so-called 'Strategy for Territorial Cohesion', approved in February 2020, establishes the assumptions and guidelines for a strategy promoting intra- and inter-regional cohesion and regional development of the country as a whole. These strategic frameworks aim to define territorial and functional rural-urban relationships, mainly regarding the provision of public services in the country's interior. The implementation relies on ESIF co-funded regional programmes as the main funding source. The Interior Enhancement Programme is focused on the development of the interior and territorial cooperation, while the Strategy for Territorial Cohesion simultaneously targets urban policy, territorial and functional rural-urban relationships, and inter-city corridors. It is expected to aggregate the contributions of individual regional strategies and identify a set of supra-municipal interventions. The implementation of the Strategy is thus expected to largely rely on a coordinated approach to defining a territorial network with a strong focus on rural-urban exchanges and interactions.<sup>32</sup>



In **Norway**, there is both an institutional and a policy context to the increased attention to urban-rural issues in regional policy. Recent local government reform has prompted a revised approach to urban-rural linkages. It envisages a more strategic role for the regional level, including coordination in the planning and development of urban-rural relations. Regional policy is currently the responsibility of the Ministry for Local Government and Modernisation (KMD), whose portfolio includes institutional reform and physical planning. The reform has influenced the review of regional policy and placed it in a broader framework. In particular, it has shaped debates on the relationships between urban areas and their hinterlands, taking account of the local government reform agenda. The 2017 White Paper 'Urban sustainability and rural strength' involved a shift towards territorial cohesion and sustainable development.<sup>33</sup> The White Paper reflects the growing interest in relations between urban areas and their hinterlands, including the perception of a reciprocal urban-rural relationship. This assumption has given rise to two main goals:

- *business and community development in designated rural areas – 'districts' –*, aiming at development of local capacity in the long term, inclusive and growth-based communities, and support for access to local services;
- *sustainable economic development in all regions*, building on closer cooperation between urban and rural areas, business and skills development and specific restructuring programmes for areas affected by sudden or anticipated job losses.

The 2019 White Paper 'Vibrant Communities for the Future' continues this approach but focuses on *rural district* issues more directly. It particularly addresses skills, the availability of labour and the age dependency ratio at the regional (district) level.

## 4.2 From tech to citizen inclusion: the Smart City agenda



*"We are living in the Smart City age, with assemblages of networked technologies being used to mediate many aspects of everyday life (e.g., work, consumption, communication, travel, service provision, domestic living), with the trend moving towards ever more computation being embedded into the urban fabric (...) and services being shaped by or delivered in conjunction with digital platforms."<sup>34</sup>*

**Cities have always been at the centre of digitalisation and technological development. Representative of this is the 'Smart City' concept which has evolved in recent years, extending its spatial and thematic coverage.** The Smart City concept originated as a largely supply-driven initiative to adapt urban services and generate new economic opportunities, with a heavy reliance on digital innovation in urban areas. Its agenda has shifted significantly over the last decade, and 'smartness' has also extended to other territories, such as smart regions and villages. In recent years, a key discussion in the Smart City agenda has been addressing the challenge of rising inequalities within urban areas and issues of wellbeing and fairness. There has been criticism of the Smart City concept for focussing on technological solutions that may be valuable only to certain urban stakeholders. Not all citizens and authorities are



capable or willing to adopt digital technology in all aspects.<sup>35</sup> Smart City programmes have, thus, begun to position digital technologies and networks to the benefit of all inhabitants and businesses, and also to prioritise a more interactive and responsive city administration, governing transport systems, pollution and waste management, and health services. Besides increased efficiency and saving city budgets, this has sparked interest in (digital) citizenship and new forms of democratic engagement.



Urban areas in **Sweden** have been coming under increased policy scrutiny, not least due to ongoing urbanisation and the importance of cities in promoting sustainable growth. The first national urban development strategy - the Strategy for Liveable Cities - was published in 2018. Within this, Smart Cities is one of five strategic cooperation programmes, brings together actors from business, public sector and academia to work together on changes in the respective domain. The aim of the Smart Cities cooperation programme, which focuses on digitalisation, environmental technology and other innovative instruments, is to contribute to a more sustainable urban development. The programme has eight specific priorities: (1) open and shared data; (2) digitalised planning process; (3) sharing economy and green business models; (4) effective use of existing buildings; (5) Sweden's Smart City library; (6) housing for all; (7) digitalisation for socially cohesive cities; (8) smart streets – urban mobility.

Although no Ministry has the overall responsibility for urban issues, the **Council for Sustainable Cities** (*Rådet för hållbara städer*) is a specific structure to bring together the state authorities working on urban development. The Council consists of agencies at national and municipal levels, as well as an associated expert network. Overall, the moderate emphasis on technological solutions in the Liveable Cities strategy, and prioritisation of resource-efficient solutions, 'climate-smart' urban living, and smart low-carbon transport show that Swedish Smart Cities cooperation programme has been operationalised with a view on sustainability.<sup>36</sup> Furthermore, it has a specific export-oriented platform for smart and sustainable city solutions consisting of government and industry partners. This is considered to be important for spreading innovative Swedish ideas, solutions and test beds related to urban development.<sup>37</sup>



The Smart City agenda is important for regional development in **Finland** as it focuses on how to manage sustainable development in a context of peripherality and demographic challenges. Urban policy is delivered through three programmes: the Urban Programme (2018-22), targeting the largest cities; the 'regional city' programme (2020-22), targeting smaller cities with regional importance; and the Sustainable City programme (2019-23). From these three programmes, the Sustainable City programme is currently the only one with a dedicated budget. Coordinated by the Ministry of Environment, Smart Cities is one of the programme's themes, alongside carbon-neutral cities, socially sustainable cities, and healthy cities. The implementation of the strategy will involve regional development funding, even though its territorial focus is on major urban centres.<sup>38</sup>

The Finnish Smart Cities theme takes a **cross-sectoral and partnership-based approach**, primarily supporting cities' own efforts towards sustainable urban development.<sup>39</sup> As in the





Swedish case, the smart cities concept goes beyond the use of information and communication technologies (ICTs). Instead, digitalisation, smart services and service chains are mobilised to streamline energy consumption, increase energy efficiency, and offer new mobility services that decrease private car use. Similarly, efficiency and sustainability are also informing the programme's monitoring systems. As part of the Regional Development Decision, there is scope for **indicators additional to economic growth or population features**, such as inclusion and safety, social networks and different aspects of sustainability.<sup>40</sup> Following this principle, there is growing interest in the so-called 'Smart Shrinking' approach, which is particularly helpful in those regions which are facing challenges with ageing and decreasing population. The concept refers to active adjustment in these regions, and takes into consideration the decreasing population and the impacts this has on economic development and on other issues such as the delivery of services.<sup>41</sup>

Three consecutive generations or versions of Smart Cities have emerged over the last decade. Smart City 1.0 maximises advanced technology use for control and efficiency purposes, the Smart City 2.0 designs technological tools in consultation with citizens and is usually city-led and location-specific, whereas Smart City 3.0 puts citizens' interest in social inclusion, democracy, entrepreneurship and social capital before technological innovation. In **Poland**, the 'Smart City' agenda has evolved over time and the latest iteration, puts citizens' interest in social inclusion, democracy, entrepreneurship and social capital at its heart (see Box 1).

### Box 1: The Human Smart City in Poland



In Poland, the National Municipal Policy 2023 and the Strategy for Responsible Development form the basis of Smart City implementation. They promote smart solutions for cities in the social, environmental, residential, transport, infrastructural, administrative domains and in city management. Whereas previous projects and programmes typically related to the use of intelligent ICT solutions, the new documents intend to take an important step by creating further development with **active participation of residents**.

From this perspective, the role of city authorities is to harness citizen potential, both by encouraging residents to use modern technologies and by enabling them to create their own innovative social solutions in the field of city management. Residents co-create and co-decide on interventions in the cities in which they live. In particular, **medium-sized cities losing social and economic functions are prioritised**. The Polish Ministry for Funds and Regional Policy has prepared a competitive scheme called Human Smart Cities (HSC): Smart cities co-created by residents.<sup>42</sup> Its main goal is to create a citizen-friendly space, in which residents take responsibility in management and co-decision-making. The competition emphasises the social dimension of the smart city, enabling local governments to implement projects based on new technologies related to, among others, social housing innovations, support for social participation, circular economy, and civic solutions based on open data.

The HSC scheme has funded 15 projects in medium-sized cities, 8 in small towns, and 2 in large cities, based on contracts the signed between the Ministry, cities and other beneficiaries. Individual HSC projects will last until the end of 2022, and the developed technological solutions and social innovations will be disseminated among stakeholders and cities with similar conditions in Poland and other countries. The projects focus on the



following thematic areas: sustainable housing, social participation, sustainable mobility, smart grids, big data monitoring, and eco-technologies.

### 4.3 The city region as a driver of economic growth



**The potential of city regions to coordinate spatial development is well documented, and lately increasingly supported by negotiated or 'deal based' interventions.**<sup>43</sup> City regions or metropolitan areas - larger

constellations of cities and towns that constitute a functional economy - are key drivers of regional economic growth. The aim of city-region structures, strategies and instruments is to maximise this productivity and growth potential in major cities and their hinterlands. This requires strategic interventions that integrate national, regional and urban agendas and which facilitate cooperation between public and private sectors. Several EoRPA partners have policy arrangements in place to support functional urban areas. Often, such arrangements come in the form of contracts, deals, or agreements. For example, in 2015, the Netherlands adopted City Deals and France started using Urban Contracts (*Contrats de Ville*), covering social or economic issues in a set of urban areas.<sup>44</sup> These approaches were emulated in the United Kingdom (City Deals, Growth Deals), Italy (regional development Pacts), again in the Netherlands (Region Deals), and in Finland, where contractual approaches were implemented between the national government and the larger cities and selected regions.



City regions in **Austria** have been addressed by the Austrian Spatial Development Concept (ÖROK), an organisation established by the federal government, the Länder and municipalities to coordinate spatial development at the national level. Despite not having a domestic regional policy or urban policy at the national level, city regions have been part of ÖROK's **implementation partnerships** between 2012 and 2016. Austria's urban settlement structure - involving one metropolis (Vienna), many small and some medium-sized towns - has favoured addressing urban themes using regional policy objectives. At the federal level, economic development and quality of life objectives are set out in the ÖROK, which coordinates so-called 'Implementation Partnerships'. This resulted in the publication of an 'Agenda City-regions' (2015) and a cooperation platform on city regions (2017). Cohesion Policy is contributing to this agenda, through ERDF Sustainable Urban Development support in Upper Austria and ERDF-co-funded city-region measures in Styria.



Partnership-based approaches to regional policy and cities are most prominent in the **United Kingdom** (UK). The Cities and Local Government Devolution Act 2016 established the institutional basis for devolving powers and resources to functional urban areas, creating the scope for multi-level partnership arrangements in addressing urban and regional development challenges such as job creation, transport and connectivity, innovation and productivity. In the absence of a UK-wide regional policy strategy, different



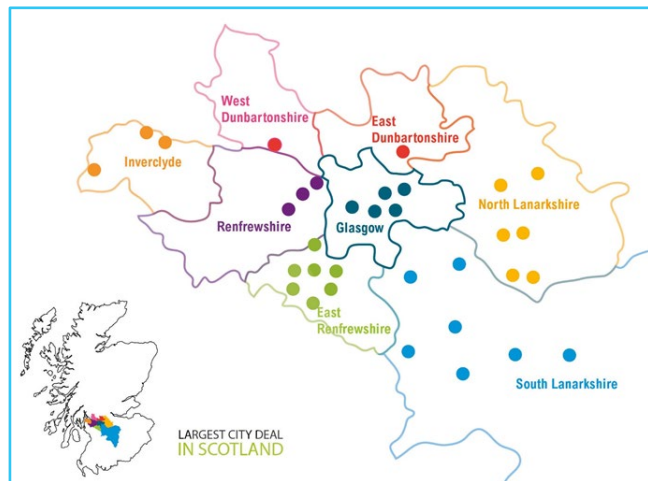
forms of 'deals' (Growth Deals, Devolution Deals, City Deals) are currently the largest regional policy instruments (see Box 2).

**Box 2: City-Region Deals in Scotland - Glasgow-Clyde Valley**

City Region Deals (CRD) are agreements between UK Government, Devolved Administrations and local governments, as well as societal actors. The CRDs are designed to bring about **long-term strategic approaches** to improving regional economies, and unlock private sector investment. CRDs are agreed or under discussion in all Scottish regions, with their main cities acting as anchor points (see Annex 1).<sup>45</sup>

The Glasgow-Clyde Valley CRD is unique in the sense that it is the first Scottish CRD, includes most local authorities (eight), and is the largest in terms of funding levels. **The UK and Scottish governments each invest £500 million over the course of 20 years**, with a further £130 million from the local authorities. It is set to deliver 21 infrastructural projects to improve connectivity to the city centre, canal and river waterfronts, as well as airport and motorway access. Other fields of investments are innovation and business growth, supporting e.g. SME incubators and medical technology centres, and employment schemes targeted at young people and progressing staff in low paid jobs. The inserted map shows the projects' geographical spread across all eight local authorities.

In terms of monitoring, the Glasgow CRD has various measures in place to support internal governance and delivery, such as an Assurance Framework, 5-year reviews and annual reports. Two dedicated fora, the Economic Delivery Group and the Glasgow City Regional Partnership, examine how the Deal supports economic growth in the region and provides partners with updates on projects and progress. However, successful delivery of CRDs is not straightforward: the involvement of central, regional and local governmental actors, next to societal partners, is inclined to lead to **multi-level tensions**. For instance, economic development agendas of the involved national and regional governments may contain conflicting priorities. For example, the UK Government's focus on productivity metrics may create tensions for the Scottish Government's inclusive growth agenda.<sup>46</sup>



Source: Glasgow City Region Deal (2020)



**The Netherlands** has a long history of city-regional cooperation, in particular in the central Randstad area and in smaller, more peripheral, cities.<sup>47</sup> As in the UK, the Dutch

**City Deals and Region Deals** are prime examples of contract-based urban and regional development. The City Deals show that cooperation can be based on thematic similarities, rather than geographical vicinity, and connect larger cities to small towns. They have a thematic orientation such as energy transition, social cohesion, or circular economy, based on cooperation agreements between cities, government, businesses and civil society. As of 2020, twelve City Deals had finished and seven were underway. Although they do not have a dedicated funding mechanism, evaluation of the City Deals has found that they



support new multi-level government arrangements and provide room for experimental approaches.<sup>48</sup>

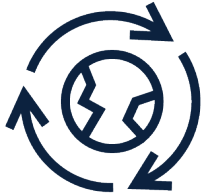
In turn, the Dutch Region Deals have dedicated funding for the 2018-2022 period from the national Regional Budget, whose contribution is matched by regional and private sector funding. **The Regional Budget acknowledges the need for enhanced support for structurally weaker areas**, targeting large city boroughs, as well as smaller cities and towns. Nation-wide, 32 Region Deals are underway, with larger municipalities or regional centres usually taking the first initiative while surrounding smaller municipalities assume a 'following' role.<sup>49</sup> At the regional level, **the Deal-approach is welcomed for its scope for customisation, experimentation and innovation, and their ability to form flexible (city-)regional alliances**. The role of central government in facilitating access to networks, the capital market, or in making regulatory provisions is seen as valuable, particularly at an early phase of implementation of new ideas, when projects often encounter barriers. A key lesson from earlier regional policy instruments is that it is important to stimulate weaker areas alongside the core city rather than to anticipate spillover effects.<sup>50</sup>

Similar to the re-orientation of Smart Cities, the focus on larger city-regional agglomerations has gradually been accompanied by 'regional equity', balanced growth and accountability considerations. The Deal-structures between urban and regional actors, as exemplified by the Netherlands and the UK alongside contract-based partnerships in other countries, reflect the **greater regional policy focus on smaller towns, specific disadvantaged urban areas, and city-regional links that emerge in between administrative and geographic boundaries**. New 'soft' spaces provide problem-solving potential to respond to (urgent) societal challenges, but at the same time require switching and bridging between multiple harder and softer levels. The examples from the EoRPA countries are showing the resulting tensions. Deal structures in the UK and the Netherlands have for instance led to questions around accountability and capacity at regional and local levels. Whereas these structures add to the mainstreaming of city-regional thinking into relevant policies at the national, regional and local level, they may not have the authority to oversee the multiple scales of city regional policymaking or the remit for legal changes or financial programmes.<sup>51</sup> The challenge for regional policy is to balance the more central tools to regulate and finance city-regional cooperation without missing out on opportunities for private and civil society actors at the city level.



## 5 COVID-19 AND THE URBAN DIMENSION OF REGIONAL POLICY

### 5.1 COVID-19 impact on urban areas



**The impacts of the COVID-19 pandemic and subsequent measures introduced by governments to limit its spread have been strongly felt in urban areas around the world.** Important urban features of mobility and closeness abruptly became health risks rather than economic assets. This is raising important questions of whether and how regional policy should respond.

By July 2020, urban areas had an estimated 90 percent of all reported COVID-19 cases, becoming the epicentre of the pandemic.<sup>52</sup> The size of city populations and their level of global and local interconnectivity make them particularly vulnerable to the spread of the virus. Urban regions that include cities with more than one million inhabitants appear to have the highest reproduction numbers.<sup>53</sup> Economic and social measures introduced to try to contain the spread of the virus have also had an impact on urban areas. Although studies are only beginning to discern these impacts, they identify some clear effects.

- **The pandemic is having an impact on urban economies and job markets** with variation depending on the local economy's exposure to global value chains and specialisation in specific sectors. Urban areas with less diversified economic bases have been hit especially hard. Cities with a revenue base reliant primarily on tourism, for example, are anticipating acute economic shrinkage as earnings from international tourism are estimated to decline by as much as 80 percent in 2020, accompanied by the loss of 120 million jobs worldwide. Other urban areas with manual labour and service-based economies are also being impacted as the market for services they provide has shrunk significantly during this pandemic.
- **COVID-19 threatens to exacerbate entrenched inequalities in urban areas, increasing social cohesion challenges.** Deep-rooted inequalities in cities have influenced the degree and nature of COVID-19 impacts. Low income and pre-existing health conditions, associated with increased the vulnerability to the virus, have caused a higher rate of fatalities in more deprived urban areas.<sup>54</sup> The same applies to the effects of the measures that limit its spreading, which have led to less access to regular healthcare, social isolation and loneliness. On a practical level, people are avoiding crowded urban places, public transport and gatherings with fellow citizens. This results in different links and interactions between people, including a mix of digital and physical contact. This will affect personal networks that rely on physical presence, as well as usage of public services and social gathering spaces.
- **The pandemic is also highlighting environmental challenges in urban areas.** Urban areas with higher levels of air pollution, and more extensive respiratory conditions, have experienced greater exposure to severe COVID-19 infections.<sup>55</sup> Moreover, changes



being introduced to public infrastructure, health and business facilities to respond to the crisis are re-shaping the urban environment. In the longer term, planners, policy-makers and designers will have to consider more permanent interventions that respond to the threat of future pandemics and other health and environmental risks.<sup>56</sup>

- **Responding to the crisis is placing substantial pressure on the financial and administrative resources of urban authorities.** Urban authorities are addressing health and social impacts, particularly in areas with more vulnerable or deprived populations (e.g. providing support to the elderly or homeless, health care, education, promoting digitalisation, support to migrants, access to social services etc.). At the same time, urban authorities are introducing initiatives to mitigate the economic effects of measures taken to limit the spread of COVID-19. These initiatives include providing financial aid to local businesses, introducing flexibility and exemption of tax and fee payments, stimulating economic activities, compensating businesses having contracts with the municipality, creating new online marketplaces, providing advice services to entrepreneurs, etc. In the longer term, local planning is underway with groups being established to explore how the recovery process should incorporate sustainable economic, demographic and environmental components.<sup>57</sup> These initiatives involve difficult trade-offs and put pressure on the financial and administrative capacities of urban authorities at a time when the crisis has increased expenditure and significantly reduced revenue for subnational governments.

## 5.2 How should regional policy respond?

**Although policy responses so far have largely been nation-wide and sectoral in orientation, the COVID-19 crisis has clear implications for how regional policy addresses urban issues.**

Cities are working with national and regional governments to develop place-based responses.<sup>58</sup> Different components of regional policy are currently being reviewed in the context of the pandemic and these often have a significant urban aspect.

**First, the crisis is contributing to increased policy attention to urban resilience and wellbeing.**

- The pandemic has exposed existing vulnerabilities and inequalities, particularly within cities. Recovery measures that prioritise reduction of urban inequalities, wellbeing of communities, and their resilience to future shocks are emerging.
- Cities are seeing the recovery as an opportunity for drastic changes towards more sustainable, equitable and resilient societies.<sup>59</sup>
- Cities are reflecting on how to update their development strategies to integrate the lessons learned from the crisis and better prepare for future crises, for example highlighting resilience (e.g. in Malmö) and wellbeing (in Milan).<sup>60</sup>

In several cases, **these commitments fit with processes of strategic reorientation that have been underway in recent years.** In Wales, for example, the Welsh Government has launched a new Foundational Economy Challenge Fund to encourage local experimentation, based on co-production partnerships between municipalities and their civil society partners. The Fund supports experiments and innovation which adopt a collaborative approach in realising the potential of sectors that have been over-looked and under-valued by policy-makers even though they play an important role in meeting social needs.<sup>61</sup>

**Second, the varied territorial impact of the crisis may prompt the consideration of the spatial focus of regional policy, potentially reframing the coverage of urban areas.** In some countries, the severe impact of the pandemic in urban areas means that there is potential for a geographical reorientation of regional policy. The negative impact experienced in some cities means that urban areas that were previously given limited regional policy attention, or were treated as economic 'drivers', may receive renewed focus. This includes cities with particularly deprived districts or those experiencing substantial difficulties through the decline of tourism and hospitality or specific services or industrial sectors.

- In **the Netherlands**, the impact of the crisis has been strong in deprived areas of some cities that are usually perceived as strong centres for financial and other services. This is supported by data on unemployment benefits and emergency grants. For instance, over 50 percent of businesses with two or more employees in the two largest cities were supported through the national financial aid schemes, which is substantially higher than the national average.<sup>62</sup>
- In **Portugal**, recent regional policy has focused on the interior which has been facing depopulation challenges. However, the impact of the crisis on larger cities and tourist destinations could prompt consideration of how these other areas could also be supported.
- The **growing focus on the role of smaller cities** and urban areas outside metropolitan centres, already apparent in the regional policies of several countries, is being reaffirmed. The impact of the crisis in metropolitan centres underlines negative agglomeration externalities and strengthens the logic for territorial cohesion through development of smaller urban areas.

**Third, key policy governance messages of coordination are emerging from early reviews of regional policy crisis responses that include a strong urban dimension.** As noted in previous sections, cities have been collaborating with a wide range of actors, including national and regional governments, urban stakeholders and citizens, as part of ongoing regional policy trends. The COVID-19 crisis is having an impact on these dynamics.

- The priority given to nation-wide and sectoral measures has meant a centralisation of some competences. Nevertheless, **responses to the pandemic are providing a new impetus for multi-level coordination.** Urban authorities have important policy competences and are on the frontline of responses to the COVID-19 crisis. They play a



key role in implementing nation-wide measures, but also provide laboratories for bottom-up and innovative recovery strategies.

- The crisis has underlined the importance of multi-level coordination at national, regional and local levels in order to minimise fragmented or disjointed responses and competition for resources. For example, **Norway** established a working group with members from central government ministries and the Association of Local and Regional Authorities (KS) to consider the impact of COVID-19 on local government revenues and expenditure.<sup>63</sup>
- There is a need to promote **participation of urban authorities in regional and national recovery plans** in order to ensure coherence. In the **United Kingdom**, coordination between cities, local authorities and national government has been important in implementing funding schemes to help small businesses.<sup>64</sup>

**Fourth, EU Cohesion Policy is playing a notable role in supporting urban authorities' crisis responses.** The European Commission introduced flexibilities for programme authorities to address the impact of the crisis on projects and beneficiaries, including urban authorities.

- **Projects impacted by delays in implementation are being supported** through: extending calls for applications to widen the possibility to finance working capital using existing resources; speeding up payments and increasing advance payments to beneficiaries; deferral of calls; deferral of repayments; delaying project control visits; introducing new methods of project delivery; and issuing advice to beneficiaries.<sup>65</sup>
- The involvement of urban authorities in **Integrated Sustainable Urban Development Strategies (ISUD)** in the current period has been significant. In the short-medium term, urban authorities across Europe are facing unprecedented budgetary, strategic and capacity demands as they deal with the COVID-19 crisis. In this context, ISUD funding plays a key role in incentivising strategic cooperation and policy innovation.<sup>66</sup>

**Finally, the initiatives explored in detail in Section 4 are particularly relevant in the 'COVID era'.** The challenges posed by the pandemic mean that cities should be more efficiently linked with rural areas, in terms of the production of goods, energy consumption and transport organisation. This includes digital connectivity in the context of efficient service provision and new patterns of remote working.

- Improvements in **transport infrastructure** may also be needed as regions and cities reconsider their role in global value chains and look to ensure access for agricultural products and other resources produced in the rural areas. Similarly, there is the prospect of a territorial rebalance between larger cities and their regional hinterlands.





- **City-region strategies are already being adapted to address the challenges posed by COVID-19.** For instance, the Glasgow City Region has received a £250 million funding boost which will support the recovery of the area.
- **Cities are accelerating the implementation of sustainable urban mobility plans,** covering, for example, pedestrianisation of streets, speed reduction of motor vehicles, and improving intermodal transport systems to take into account of new commuting and personal mobility patterns across the city-region.
- **The ‘Smart City’ agenda is being re-oriented to take full advantage of the opportunities of digitalisation and technological advances.** During the crisis, digital tools have eased the administrative burden on core regional and local services and those that help SMEs, the self-employed and vulnerable populations. Internet and smartphone applications are playing a critical role for communication, awareness-raising and teleworking, but also in learning and skills development. Smart city tools have been adapted to monitor virus spread and contagion risk, and to secure the continuation of virtual public or health services.<sup>67</sup>



## 6 CONCLUSIONS

**Urbanisation processes are having a strong and territorially diverse impact across countries in Europe. The 'urban paradox', whereby urban areas simultaneously present significant challenges and solutions for sustainable development, demands regional policy attention.**

However, for several reasons, it is challenging for regional policy to address urban issues. Patterns of urban development and processes of urbanisation are territorially differentiated, creating complex and varied development opportunities and challenges not just between but also within countries. Moreover, policymakers and academics often refer to a variety of policies, including 'regional development policy', 'urban regeneration policy', 'city policy' and 'growth policy', which overlap in terms of scope, spatial scales, remit and priorities. In several countries there are regulatory, institutional or administrative barriers to integrating regional and urban policy agendas.

**Regional policy is taking up this challenge through coordinated policy governance initiatives and integrated strategies that set a framework to articulate the contribution of urban areas to regional development.**

Governance initiatives are exploring different structural arrangements and mechanisms at national and sub-national levels to coordinate regional and urban development measures. A variety of options are being pursued: dedicated coordination structures, contracts or agreements; the use of incentives (e.g. delegation of tasks, State investment); conditionalities (e.g. use of indicators, targets, governance reform at local level etc.); and, capacity-building initiatives (e.g. for strategy-building, local cooperation, new tools for priority-setting etc.). Important changes are also underway in the spatial targeting of regional policy, involving a more nuanced and place-based understanding of functional relationships between territories. Traditional 'parcelling' of urban space and dichotomies of urban-rural, city-town, etc. is increasingly seen as inadequate for policies trying to capture complex and constantly evolving flows of people and resources across territories. Addressing the urban paradox is also contributing to strategic reorientation, at least in part rebalancing the focus on urban areas as centres for economic growth and technological innovation to give more weight to priorities related to social inclusion and wellbeing. These strategies are seeking to coordinate territorial focus (e.g. city-region, metropolitan area, urban-rural network, etc.) and thematic scope (e.g. covering a broad range of policy areas or focusing on a more limited selection of headings) to find the optimal, 'place-based' mix of measures.

**Several recent interventions in urban-regional constellations are representative of new policy thinking on the role of urban areas in regional development policy.**

They address the changing functional relationships between territories, of which this paper has highlighted three: urban-rural linkages, Smart Cities and city regions. This is leading regional policy to tread new paths in terms of thematic interests, stakeholders and governance structures. The partnership-based approach between urban and (supra-)regional actors, that is often used as part of these interventions, reflects the 'soft spaces' that emerge in between 'hard' administrative and geographic boundaries. They may enhance problem-solving capacities in response to

(urgent) thematic challenges, but at the same time require switching and bridging between multiple harder and softer levels. In addition, different generations of Smart Cities have moved on from place-blind innovation-led technology to developing technologies and services in the interest of citizens and urban authorities. As a result, participatory and citizen-led approaches are increasingly informing current Smart City initiatives, usually termed 'responsible' or 'sustainable' urban development strategies. They include a wider range of indicators in the monitoring of urban and regional development and spillover to wider territories (e.g. smart regions, towns or villages). In addition, the development of city-regional frameworks is integrating urban and regional development agendas across Europe. The idea to achieve competitiveness and growth via the formation of strong, globally networked metropolitan regions has been accompanied by an increasing focus on social and environmental sustainability. As a result, complex multi-directional spatial policies arise, in which the city region forms a new functional layer, affecting funding regimes and the territorial imprint of national regional policies.

**The recent onset of the COVID-19 pandemic poses fundamental questions for the interplay between urban and regional development, which policymakers are currently working through.**

On the one hand, the territorial impact of the pandemic and the introduction of measures to mitigate its impact have emphasised the value of recent regional policy initiatives that are revising and reforming how urban issues are treated. The revision of policy governance arrangements and strategic frameworks to address the complex interaction between regional and urban development is welcome in a context where the flow and exchange of people and resources is changing radically. On the other hand, there is a risk that regional policy will struggle to deal with new challenges in addressing urban issues as the spatial and thematic focus shifts to new and pressing issues and new territorial dynamics. Moreover, efforts to develop flexible and coordinated policy governance arrangements are likely to be challenged by budgetary and administrative constraints, particularly at the level of urban authorities. Thus, as well as the prospect of further integration and coordination of regional and urban development agendas, it is possible to envisage policy divergence and separation under the pressures created by the pandemic.



## Notes

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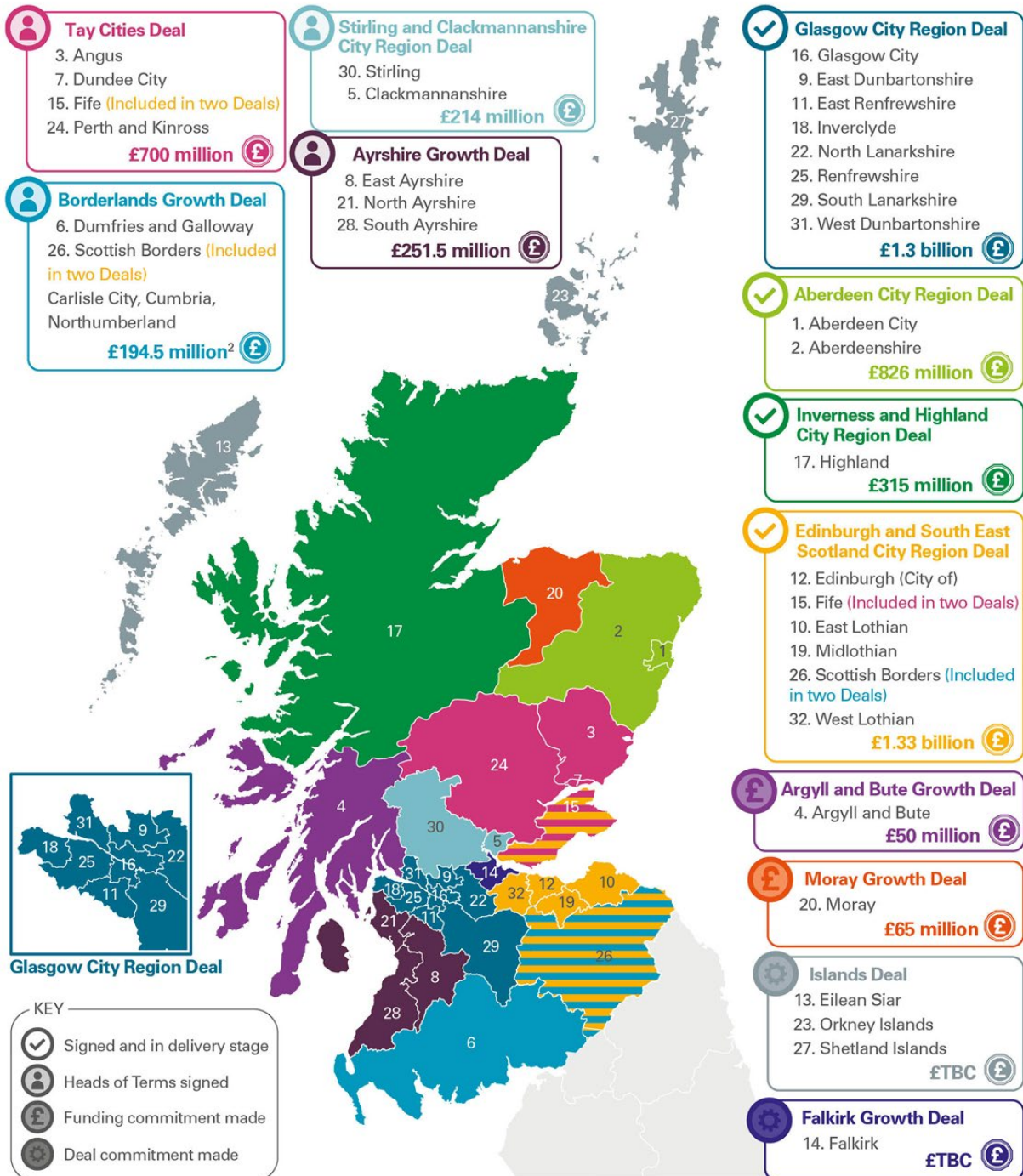
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## 7 ANNEX 1: CITY REGIONS IN SCOTLAND



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