Regional Policy in Europe Targeting Growth and Inequality

Annual Review of Regional Policy in Europe

Highlights

The idea of a trade-off between growth and equality has been challenged. There is no clear evidence of a trade-off between national growth and regional disparities across European countries.

Regional policy goals are incorporating a stronger thematic approach, partly due to the influence of Cohesion policy 2014-20.

Funding allocations are falling in poorer European countries but generally remain stable in wealthier countries.

Changes to the geography of regional policy in 2014-15 are mainly due to the roll-out of the EU regional aid map and Cohesion policy 2014-20.

Instruments are being re-shaped by EU frameworks, domestic fiscal constraints and new developmental challenges.

Key implementation concerns relate to policy effectiveness, administrative burdens, and administrative capacity.

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EXECUTIVE SUMMARY

This report provides a comparative overview of regional policies in 30 European countries. It examines the current situation, as well as key changes and drivers of change in 2014-15.

Is there a trade-off between growth and inequality?

Recent **studies question the view that there is a fundamental trade-off between** the two policy goals of **economic efficiency and social equality**.

There is **no evidence of a trade-off between national prosperity and interpersonal equality** in Europe, across various indicators of equality and groups of countries (EoRPA-12, EU15, and EU13).

Inequalities have a strong regional dimension in some – but not all - European **countries**, depending on which indicator of inequality is used.

European **countries with higher levels of national GDP per capita show higher levels of regional equality** (measured in terms of GDP per capita or household disposable income per capita).

Regional policy aims to support nationwide growth and regional equality

The **formal objectives of regional policy** are set in constitutional, legal or strategic documents, and may **focus on nationwide growth, the reduction of regional disparities, or a mix** of both.

Formal goals are generally stable over time. Nonetheless, some shifts were evident in 2014-15, with a **stronger focus on certain themes**, partly due to Cohesion policy's Thematic Objectives in 2014-20.

Funding allocations are falling in poorer countries

The 2008-09 crisis and subsequent downturn have generated **funding constraints on regional policy**, e.g. due to an emphasis on national growth or stability, and pressures on the EU budget.

Cohesion policy funding for many poorer Member States has fallen in 2014-20 (in constant prices and as a percentage of GDP) but allocations to wealthier countries are generally stable. The highest funding is for TO3 SME Competitiveness and TO6 Environment & Resource Efficiency.

There is **no firm correlation between national prosperity and the level of regional State aid** as a percentage of GDP in 2011-13. The highest levels of regional aid are in Greece and the Czech Republic, and the lowest in e.g. Austria, Finland, Sweden, the United Kingdom and the Netherlands.

EU frameworks strongly influence the geography of regional policy

Shifts in the geography of regional policy in 2014-15 relate mainly to the bedding-in of revisions to the regional aid map and Cohesion policy area eligibility for the 2014-20 period, although there have also been minor changes in domestic maps in specific countries. EU frameworks shape policy by (i) differentiating between regions in individual countries; (ii) constraining domestic decisions on area designation; and (iii) shaping the regional allocation of funding.

While a focus on 'all regions' is associated with goals relating to economic growth, an emphasis on structurally weaker regions can contribute both to reduced disparities and to the more efficient and productive use of under-used people, capacities and resources.

EU frameworks are also driving the revision of instruments

Regional policy instruments can be grouped into five main categories, namely:

- Direct support for business investment and job creation;
- Investment in infrastructure that facilitates business attraction and expansion;
- Packages of support to regions or smaller areas facing particular economic difficulties;
- Support for bottom-up development and capacity-building; and
- Improvements to the quality of life and public services/infrastructure.

Changes in instruments in 2014-15 have been driven in part by the 2014-20 Regional Aid Guidelines (including constraints on aid to large firms) **and by shifts in EU Cohesion policy funding**, but also by fiscal constraints and new economic challenges, and pressures to increase effectiveness and reduce administrative red-tape.

Future-oriented reviews of regional policy instruments are underway in a small number of countries.

Domestic reforms are reshaping institutional frameworks

The **institutional frameworks of regional policy depend on** broader **governmental structures** and the allocation of **responsibilities between administrative levels**.

The 2014-15 period has seen **reforms in institutional frameworks** (notably efforts to integrate and rationalise structures, and to increase capacities), as well as in the **allocation of responsibilities** between national/regional/local levels, with effects for regional policy.

Key issues for discussion

Does regional policy have an appropriate balance between the **goals of growth and equality**? Are these goals complementary, or should regional policy focus more strongly on growth or equality?

How are countries dealing with constraints on regional policy **funding**? Is there a need to rethink instruments or goals?

Are **domestic regional policy maps** needed (in addition to the EU regional aid map and the Cohesion policy categories of regions)?

Are further efforts needed to improve the **targeting** of domestic regional policies or to improve the **efficiency of implementation**?

Are countries planning **reviews of domestic regional policies**?

1. INTRODUCTION

Regional policy has long focused on the **dual goals of growth and equality**. Debates on the compatibility of these two objectives have sharpened in the context of low economic growth and rising inequalities, and are shaping policy decisions at EU, national and regional levels. The **fall-out from the 2008-09 crisis continues to influence regional policy** debates, by generating new economic challenges, constraining public expenditure, and increasing demands for policy effectiveness.

A further driver of regional policy change in 2014-15 has been the **roll-out of EU regional State aid control and Cohesion policy for 2014-20**, with a particular impact on geography, funding and instruments. The process of launching new schemes and revising existing frameworks is continuing in many countries. Moreover, **country-specific factors** (including the election of new governments and the influence of broader institutional frameworks) also continue to shape regional policy systems.

In this context, this report provides a **comparative overview of the current situation and recent changes in regional development policies across 30 European countries** (i.e. the EU28, Norway and Switzerland).[1] It explores how individual countries fit within the broader European picture by assessing the current situation and recent changes under six main headings:

Chapter 2 reviews recent studies on the relationship between growth and equality, and examines the latest cross-country European data available, focusing in particular on the regional dimension.

Chapter 3 focuses on the objectives of regional policy as set in formal documents/frameworks.

Chapter 4 compares regional policy funding, including on Cohesion policy and regional aid.

Chapter 5 explores the geographical focus of regional policy, which is driven by a combination of the EU regional aid maps, Cohesion policy regional designation, and domestic maps/targeting.

Chapter 6 provides a detailed overview of the main regional policy instruments across countries.

Chapter 7 examines the institutional frameworks of regional policy in different groups of countries.

Last, **Chapter 8** concludes and sets out a number of issues for discussion.

The report draws on a **programme of research on regional development and regional policy in 2014-15**, including interviews with senior policy-makers responsible for Cohesion policy, regional aid and domestic policy in 30 European countries. Detailed **country-specific information** is available in:

(i) a report on regional policy for each of 30 European countries,
(ii) tables of regional policy instruments, including changes in 2014-15,
(iii) fiches on regional aid instruments and other regional policy instruments,
(iv) fiches on Cohesion policy in the EU28 in 2014-20,
(v) fiches on regional aid maps for 2014-20 in the EU28 and Norway, and
(vi) fiches on the institutional frameworks of regional policy in 30 European countries.

[1] This is the latest in a series of annual overviews of regional policy in Europe produced as part of the EoRPA project. The most recent report is Davies S, Ferry M and Gross F (2014) *Policy Reform under Challenging Conditions*, European Policy Research Paper No. 90, European Policies Research Centre, Glasgow

2. GROWTH AND EQUALITY: A REGIONAL PERSPECTIVE

KEY FINDINGS

Recent studies question the orthodox economic view that there is a fundamental trade-off between the two policy goals of economic efficiency and social equality.

This chapter examines recent data for (groups of) European countries and different indicators of equality. It finds the following results for these countries:

In Europe, **there is no evidence of a trade-off between national prosperity and interpersonal equality**. Countries with higher levels of GDP per capita (or higher GDP growth rates) show higher levels of interpersonal equality. This result holds across a number of indicators of equality (Gini coefficient of disposable income, unemployment rates, and the rate of poverty and social exclusion). It also holds across a number of sub-groups of European countries (EoRPA-12, EU15, and EU13).

Inequalities have a strong regional dimension in some European countries (e.g. Romania, Belgium and Hungary), although results vary, depending on which indicator of inequality is used. In other countries, inequality indicators show similar results across all regions (e.g. in France, Greece, the Netherlands, Norway, Poland, Portugal and Sweden).

European **countries with higher levels of national GDP per capita typically show higher levels of regional equality,** if equality is measured in terms of the regional distribution of GDP per capita or household disposable income per capita. However, this result does not hold if equality is measured in terms of the dispersion of regional unemployment rates.

2.1 Introduction

There are long-standing debates over the relationship between growth and equality, which have gained in intensity in the context of the financial crisis and economic downturn which have affected many countries since 2008. This chapter reviews recent analyses on this question, as well as the latest data available, focusing in particular on the regional dimension.

The availability, comparability and reliability of regional data inevitably raise challenges. This chapter draws on Eurostat regional data at NUTS 2 level in order to maximise the number of indicators used; however, this implies that smaller countries (made up of one or two NUTS 2 regions) are excluded from parts of the analysis. Data at regional level is generally available for fewer indicators and is less up-to-date (e.g. 2011 is the latest year for which regional data are available for GDP per capita).

The chapter starts by providing a brief overview of recent studies on growth and equality, focusing on those which suggest that there is not necessarily a trade-off between these two policy goals, and that some instruments may contribute to both objectives (Section 2.2). It then examines whether data for European countries show a tension between national wealth and growth on the one hand, and interpersonal equality on the other (Section 2.3). The paper then turns to the geographical dimension, and assesses the scale of interregional disparities (Section 2.4). The final section explores the relationship between national wealth and regional disparities (Section 2.5).

2.2 Rethinking the trade-off between equality and efficiency

2.2.1 National growth and equality

Until recently, economists have tended to argue that there is a **fundamental trade-off between the two policy goals of economic efficiency and social equality.**[2] While political and social institutions aim to ensure universal rights and the equality of all citizens, economic institutions aim to maximise allocative efficiency and so may generate or widen disparities among citizens. Conversely, if a government intervenes to support equality, for example via higher taxes and redistributive policies, this may reduce economic efficiency.

A related argument is that **an individual policy field should aim to address one or other goal but not both**, as this simply leads to a failure to meet either goal. Thus the role of economic policy has been seen to stimulate economic growth, which in turn pays for other policies to address equality issues via the tax-benefit system, education and healthcare provision and so on.

Recent studies, however, question this trade-off. One view is that times of low economic growth rates are characterised by the accumulation of wealth among the richest social groups and, conversely, that rapid economic growth in the mid twentieth century was associated with income redistribution.[3]

Similarly, various studies suggest that **some policies contribute to both equality and efficiency**, and that, by supporting greater social equality, policy can also enhance economic growth:[4]

- The economic crisis has drawn attention to the ways in which **inequality can undermine economic stability**, for example by leading to an over-emphasis on easy credit as a means of facilitating consumption for low-wage citizens,[5] or by stimulating financial bubbles.[6] In contrast, more equal societies are seen as characterised by **stronger social consensus** which facilitates adjustments to major economic shocks.[7]
- The **broader social and political costs of inequality** have been documented (e.g. in terms of health and crime indicators), leading to pressures on public spending and reducing quality of life for everyone, not only for people at the bottom of the income distribution.[8] In a regional policy context, a key focus of debate in recent years is whether there is a rationale for inequality to be addressed via a **place-based development** approach rather than simply interpersonal financial transfers and universal public services.[9]

[2] A. J. Okun (1975) *Equality and Efficiency: The Big Tradeoff*, The Brookings Institute

[3] T. Piketty (2014) Capital in the Twenty-First Century, Harvard University Press

[4] See J. Ostry, A. Berg and C. Tsangarides (2014) *Redistribution, Inequality, and Growth*, International Monetary Fund, Staff Discussion Note 14/02

[5] R. Rajan (2010) *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton U.P.

[6] J. Stiglitz (2012) *The Price of Inequality: How Today's Divided Society Endangers Our Future*, W. W. Norton

[7] T. Persson and G. Tabellini (1994) Is inequality harmful for growth? *American Economic Review* 84(3): 600-621; W. Easterly (2007) Inequality does cause underdevelopment: Insights from a new instrument, *Journal of Development Economics* 84(2): 755-776; A. Berg, J. Ostry and J. Zettelmeyer (2012) What makes growth sustained? Journal of Development Economics 98(2): 149-166

[8] R. Reich (2011) *Aftershock: The Next Economy and America's Future*, New York: Random House.

R. Wilkinson and K. Pickett (2009) *The Spirit Level: Why Greater Equality Makes Societies Stronger*, Bloomsbury

[9] F. Barca (2009) *An Agenda for a Reformed Cohesion Policy: A place-based approach to meeting European Union challenges and expectations*, Report to Danuta Hübner, Commissioner for Regional Policy

- There is evidence that **some categories of government spending** (e.g. on infrastructure, health and education) **contribute both to equality and to growth**.[10] Further, the effects of redistribution on growth are seen to vary, depending on the specific details of policy measures and the particular socio-economic context.

2.2.2 Regional dimensions of the growth/equality debate

One dimension of debates on growth and equality concerns regional development and policy. This complements perspectives that focus on the entire population (interpersonal disparities) or on particular social groups (e.g. ethnicities or genders). Views diverge on the importance to be allocated to these two dimensions, as reflected in debates on whether 'regions matter' and on 'place-based policies'.[11]

The rationale for regional policy has traditionally been based on goals relating to either/both social equality or economic efficiency: [12]

- **Social equality** relates to the potential for regional inequality to create social and political tension, because individuals in less favoured regions are subject to fewer opportunities and greater disadvantage than those in better-performing regions. This argument is often linked to concerns that, without public policy intervention, market mechanisms tend to lead to regional inequalities.
- **Economic efficiency** concerns the optimal distribution of economic resources such as labour and capital. By encouraging stronger private and public investment in less-developed areas, regional policy is seen as able to enhance the use of underexploited human and locational resources. In addition, these investments may generate positive externalities in terms of benefits for other firms and workers in the same region, leading to ongoing growth effects.

The remainder of this chapter examines evidence for three dimensions of the growth/equality debate:

- Is there a trade-off between prosperity and equality at national level? Do countries with high levels of GDP per capita (or high GDP growth rates) also show high levels of social inequality?
- How important are regional socio-economic disparities in different European countries? Are the main disparities instead between social groups or individuals (interpersonal), regardless of region?
- Is there tension between national wealth and regional equality? Do wealthier countries have higher or lower levels of regional disparities, and do these vary across indicators?

[10] R. Benabou (2000) Unequal societies: Income distribution and the social contract, *American Economic Review* 90(1): 96-129; M Bleaney, N. Gemmell and R. Kneller (2001) Testing the endogenous growth model: Public expenditure, taxation, and growth over the long run, *Canadian Journal of Economics* 34(1): 36-57

[11] OECD (2008) *Regions Matter: Economic Recovery, Innovation and Sustainable Growth*, Paris

World Bank (2009) *World Development Report 2009: Reshaping Economic Geography*, Washington DC

[12] Bachtler, J (2001) *Where is regional policy going? Changing concepts of regional policy*, Paper prepared for the 22nd EoRPA meeting at Ross Priory, Loch Lomondside on 8-9 October 2001

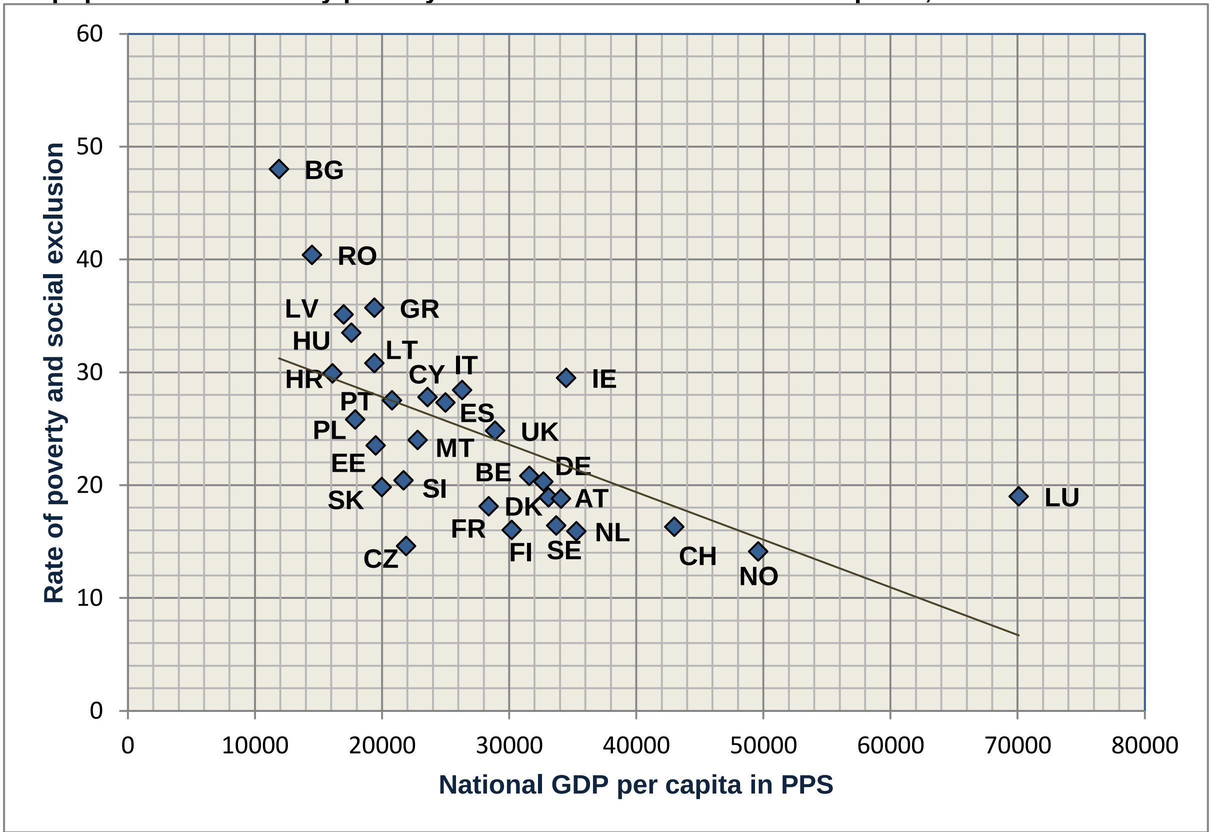
2.3 Is there a trade-off between prosperity and equality at national level?

Cross-country comparisons of European countries show a clear correlation between strong national prosperity and GDP growth on the one hand, and high national interpersonal equality on the other. This correlation does not prove causality (e.g. that wealth generates equality, or that equality facilitates growth) but it does suggest that there is no trade-off between the two goals of growth and equality at a national level for European countries.

This result holds across a number of indicators of equality (Gini coefficient of disposable income,[13] unemployment rates, and the rate of poverty and social exclusion). It also holds across a number of sub-groups of European countries (EoRPA-12, EU15, and EU13).

Figure 1 shows the correlation between national GDP per capita and the percentage of the population affected by poverty and social exclusion. Variation in national GDP per capita explains 37.1 percent of cross-country variation in the rate of poverty and social exclusion in Europe-30 (measured by the R-squared or coefficient of determination). A similar pattern is found for other indicators and groups of countries, although the strength of the correlation varies (see Table A1 in the Annex).

Figure 1: Correlation between national GDP per capita (PPS) and the national percentage of the population affected by poverty and social exclusion in the Europe-30, 2013



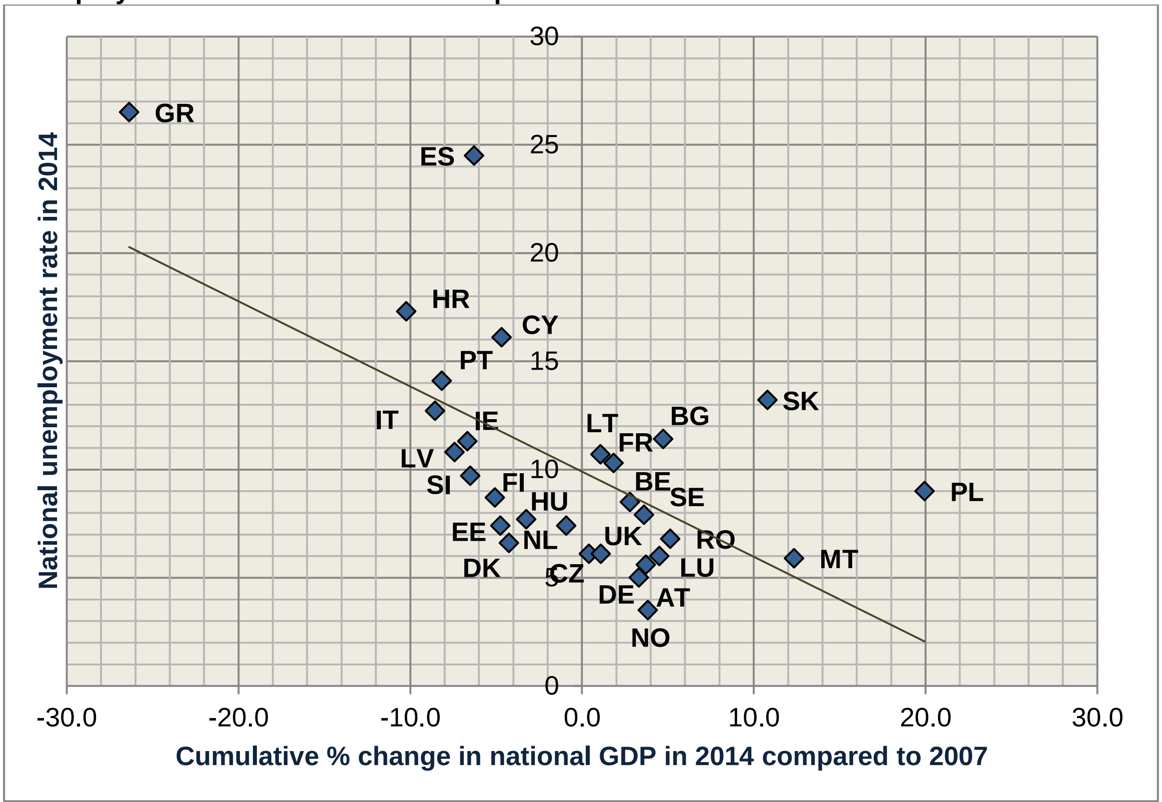
Note: The coefficient of variation (R-squared, which measures the percentage of the cross-country variation in the rate of poverty and social exclusion that is explained by variation in national GDP per capita) is 37.1 percent.
Source: EPRC calculations based on Eurostat data.

[13] The Gini coefficient is defined as the relationship of cumulative shares of the population arranged according to the level of equivalised disposable income (i.e. the total income of a household, after tax and other deductions, that is available for spending or saving, divided by the number of household members converted into equalised adults) to the cumulative share of the equivalised total disposable income received by them.

Similarly, countries with higher national GDP growth in 2007-14 show higher levels of national interpersonal equality in 2014. Again, this result holds across a number of indicators of equality (Gini coefficient of disposable income, unemployment rates, and the rate of poverty and social exclusion), as well as across sub-groups of European countries (EoRPA-12, EU15, and EU13), although the strength of the correlation differs across indicators and country groups.

Figure 2 shows the correlation between the cumulative change in national GDP growth in 2007-14 and the national unemployment rate in 2014. Cross-country variation in national GDP growth in 2007-14 explains 38.2 percent of the cross-country differences in the national unemployment rate in Europe-30 (measured by the R-squared or coefficient of determination). See Table A1 in the Annex for results for other indicators and groups of European countries.

Figure 2: Correlation between cumulative national GDP growth in 2007-14 and the national unemployment rate in 2014 in the Europe-30



Note: The R-squared is 38.2 percent.
Source: EPRC calculations based on Eurostat data.

2.4 How important are interregional disparities?

From a regional policy perspective**, a key question is the extent to which socio-economic disparities have a geographical dimension** i.e. whether key indicators of prosperity or equality vary significantly between regions. It may be, for example, that a country shows strong interpersonal disparities, but that these disparities follow a similar pattern in all regions. Conversely, the overall level of interpersonal disparities may be relatively low, but there may still be considerable differences between regions.

Figures 3 to 6 show that there is clear variation between European countries in terms of the extent to which socio-economic disparities have a regional dimension. They illustrate the degree of regional variation for (i) GDP per capita, (ii) unemployment rates, (iii) household disposable income per capita, and (iv) poverty rates, for all countries where NUTS 2 regional data are available. Regional variation is measured in terms of the coefficient of variation across regions.

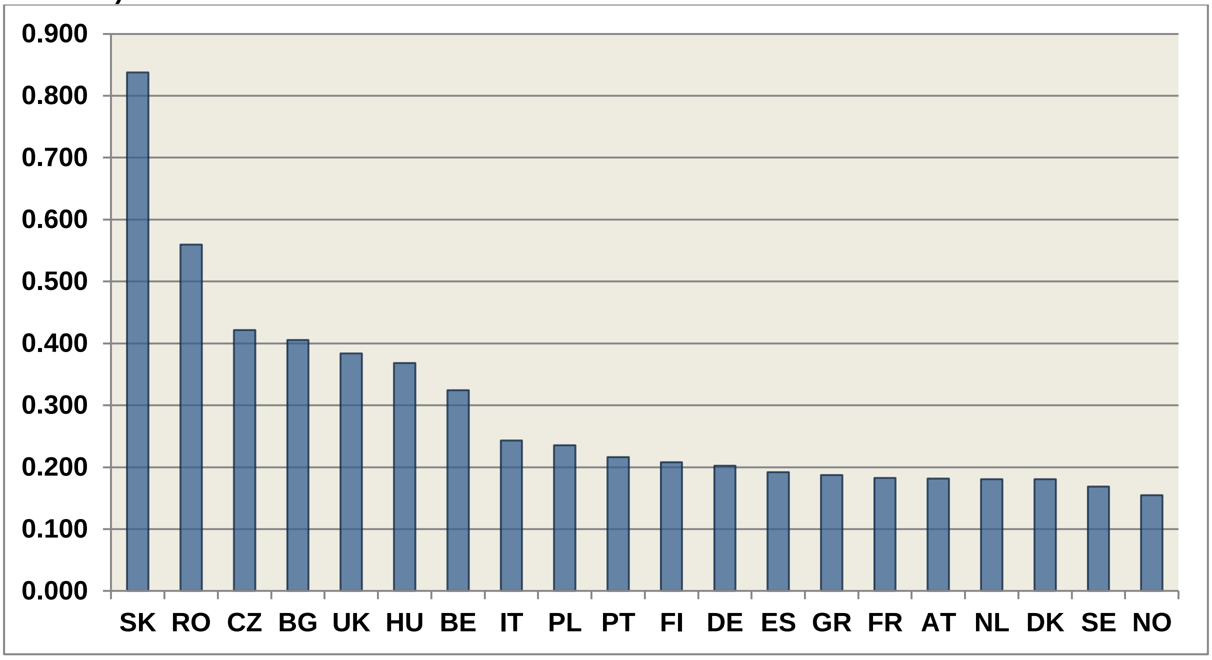
Countries can be divided into seven groups, depending on whether they show high regional variation (a score of 0.300 or over) for one or more indicators:

- Romania shows high regional variation for all four indicators;
- Belgium and Hungary show high regional variation for GDP per capita, the unemployment rate and the poverty rate;
- Slovakia shows high regional variation for GDP per capita and household income per capita;
- Bulgaria and the Czech Republic show high regional variation for GDP per capita and the poverty rate;
- Austria and Italy show high regional variation for the unemployment rate and the poverty rate;
- Some countries show high regional variation for one indicator only, either GDP per capita (United Kingdom), the unemployment rate (Germany), or the poverty rate (Denmark, Finland, Spain and Switzerland).
- France, Greece, the Netherlands, Norway, Poland, Portugal and Sweden show low levels of regional variation on all indicators.

It is important to note that Figures 3 to 6 show the scale of regional disparities, not the actual level of an indicator (e.g. GDP per capita). For example, in Figure 3, the countries with strong regional disparities in GDP per capita include some countries with high GDP per capita (United Kingdom, Belgium) and others with low GDP per capita (Romania, Bulgaria).

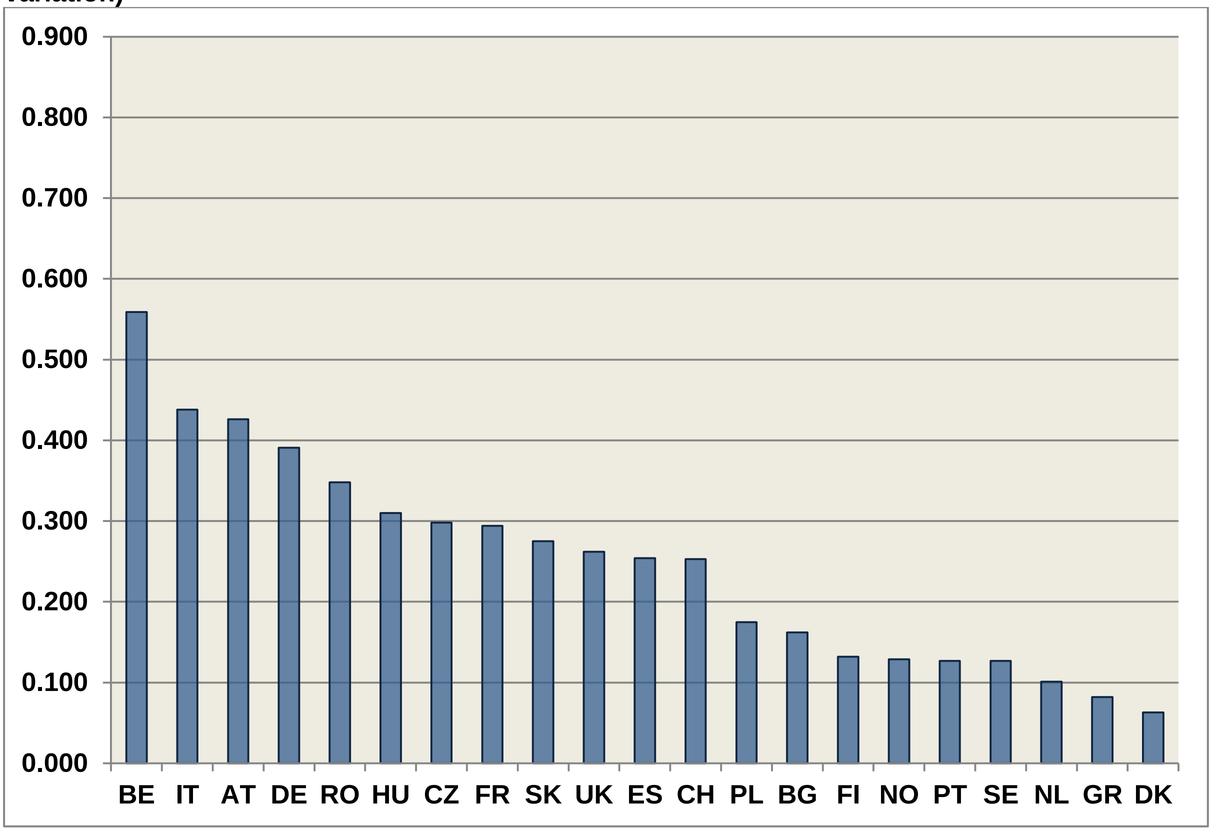
Table A2 in the Annex provides information on the national level for each indicator, as well as the coefficient of variation across regions.

Figure 3: Scale of regional (NUTS 2) disparities in GDP per capita (PPS) in 2011 ((coefficient of variation)



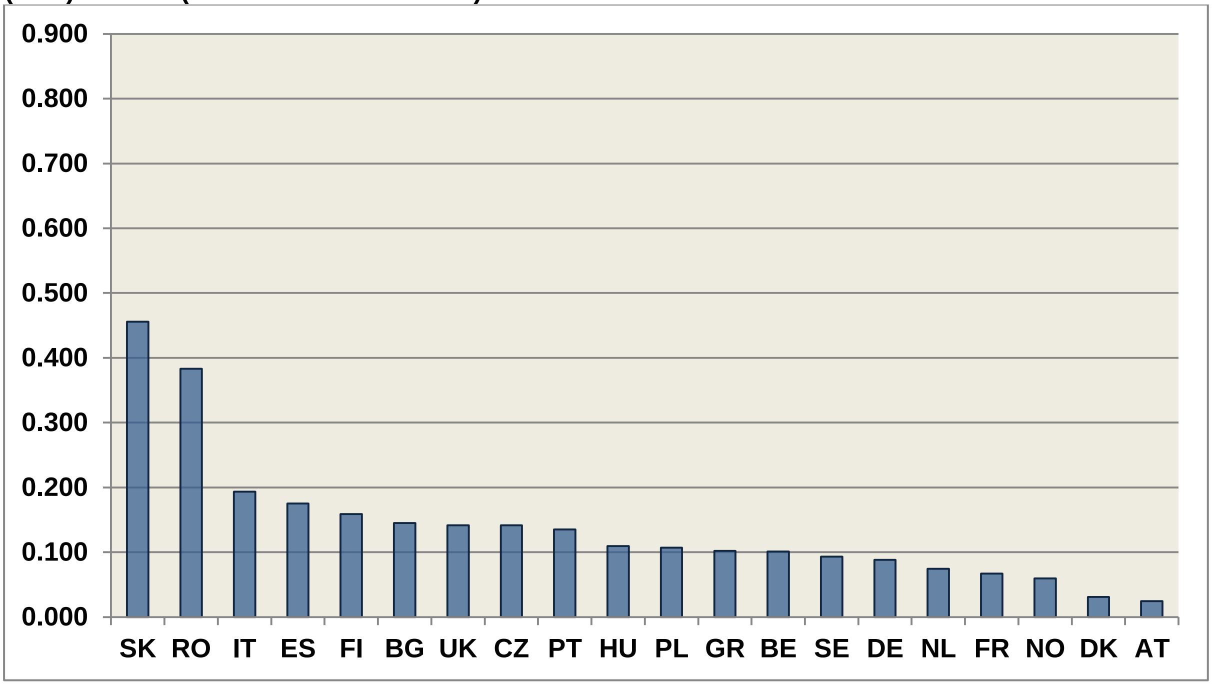
Source: EPRC calculations based on Eurostat data.

Figure 4: Scale of regional (NUTS 2) disparities in unemployment rates in 2014 (coefficient of variation)



Source: EPRC calculations based on Eurostat data.

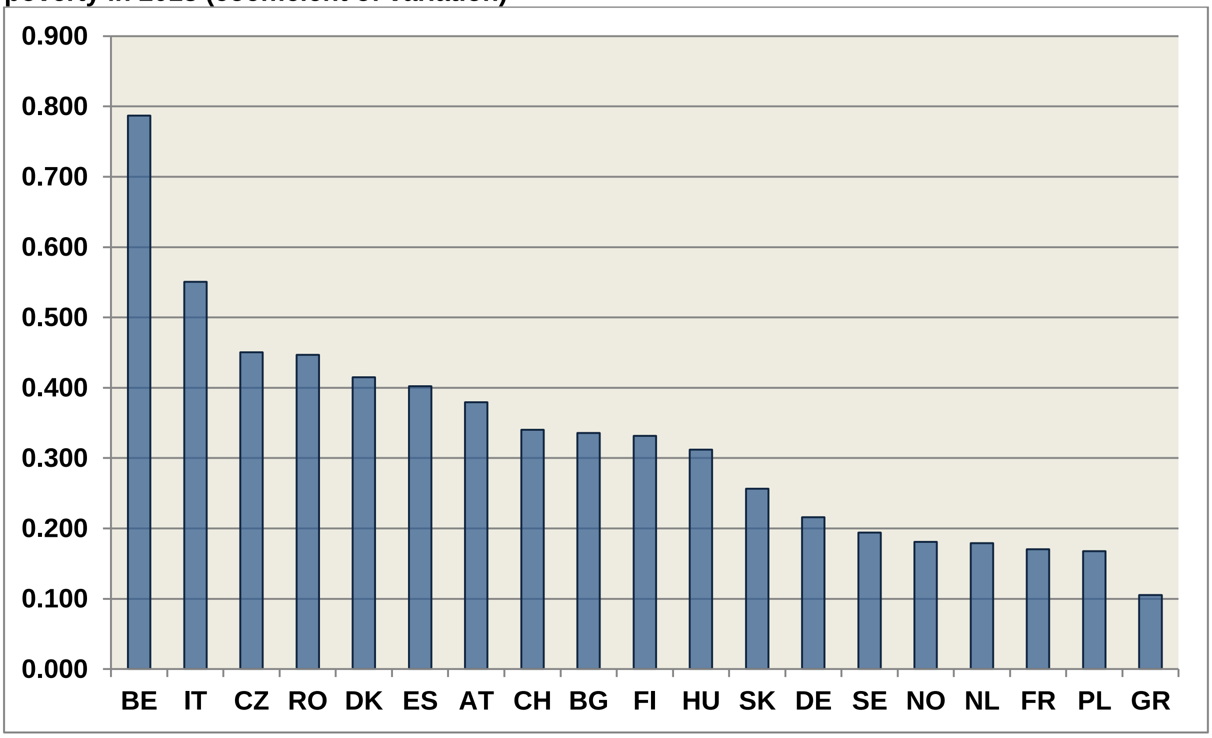
Figure 5: Scale of regional (NUTS 2) disparities in household disposable income per capita (PPS) in 2012 (coefficient of variation)



Note: Data for Portugal are for 2011.

Source: EPRC calculations based on Eurostat data.

Figure 6: Scale of regional (NUTS 2) disparities in the percentage of the population at risk of poverty in 2013 (coefficient of variation)



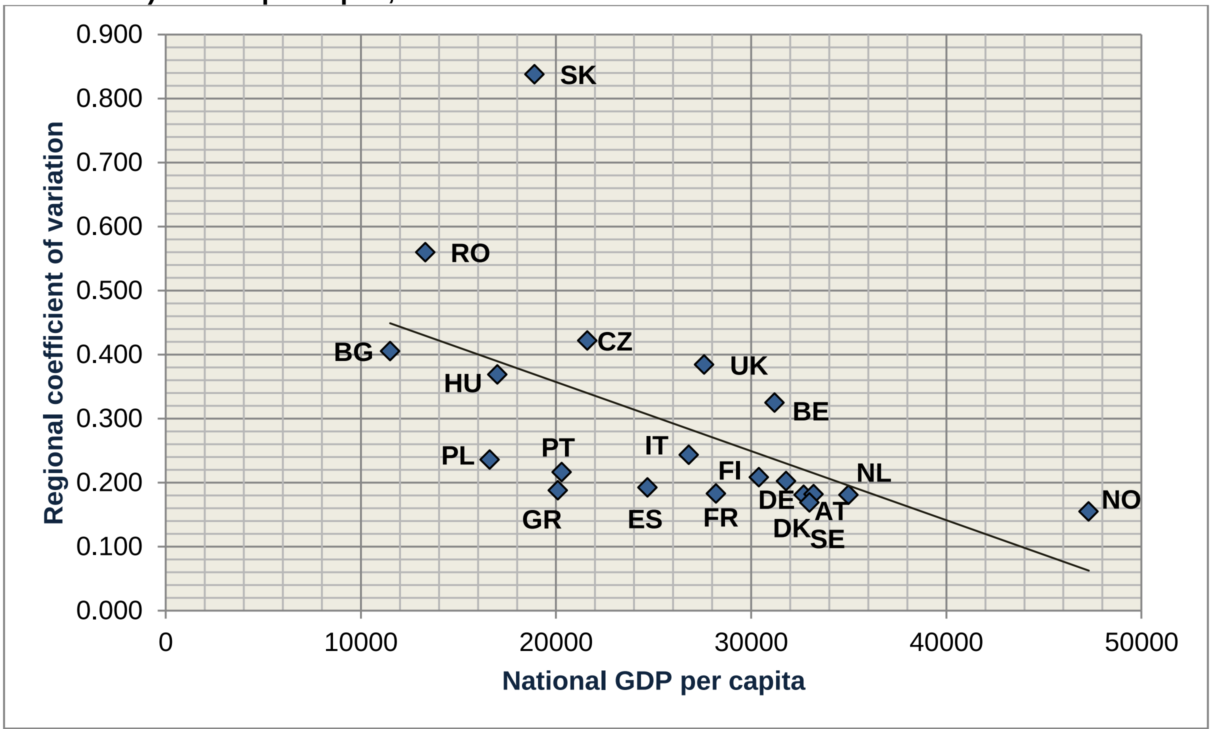
Notes: (1) Data are for 2012 in Austria, for 2011 in Belgium and France, and for 2011 in Belgium and the Netherlands; these data are for NUTS 1 in Belgium, Greece, Hungary and Poland. **(2)** There are no comparable useable data for Portugal or the United Kingdom.
Source: EPRC calculations based on Eurostat data.

2.5 Is there tension between national wealth and regional equality?

European countries with higher levels of national GDP per capita typically show higher levels of regional equality, if equality is measured in terms of the regional distribution of either GDP per capita or household disposable income per capita (see Figures 7 and 8). This result holds for Europe-30, the EoRPA-12 and the EU15 but not for the EU13 (in all cases, for those countries where NUTS 2 data are available) (see Table A3 in the Annex).

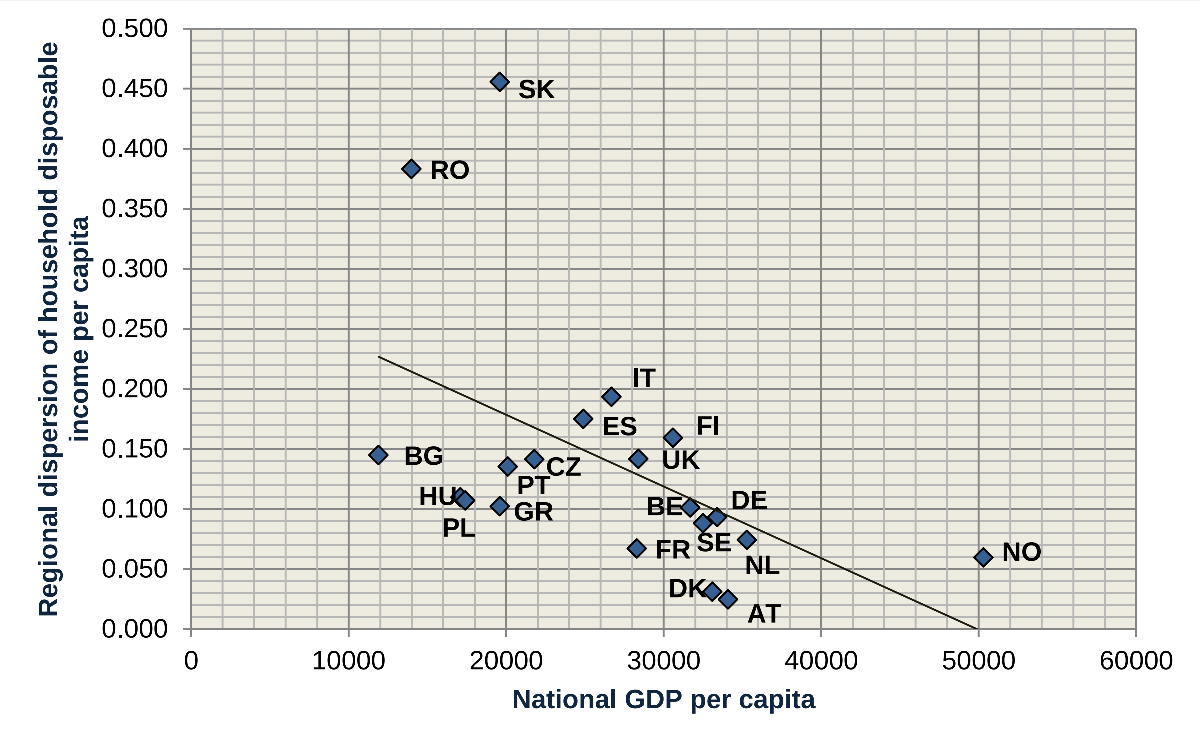
Similarly, the result does not hold if equality is measured in terms of the dispersion of regional unemployment rates i.e. in this case, cross-country variation in national GDP per capita does not explain cross-country differences in regional dispersion (see Figure 9).

Figure 7: Correlation between national GDP per capita and the regional dispersion (coefficient of variation) of GDP per capita, 2011



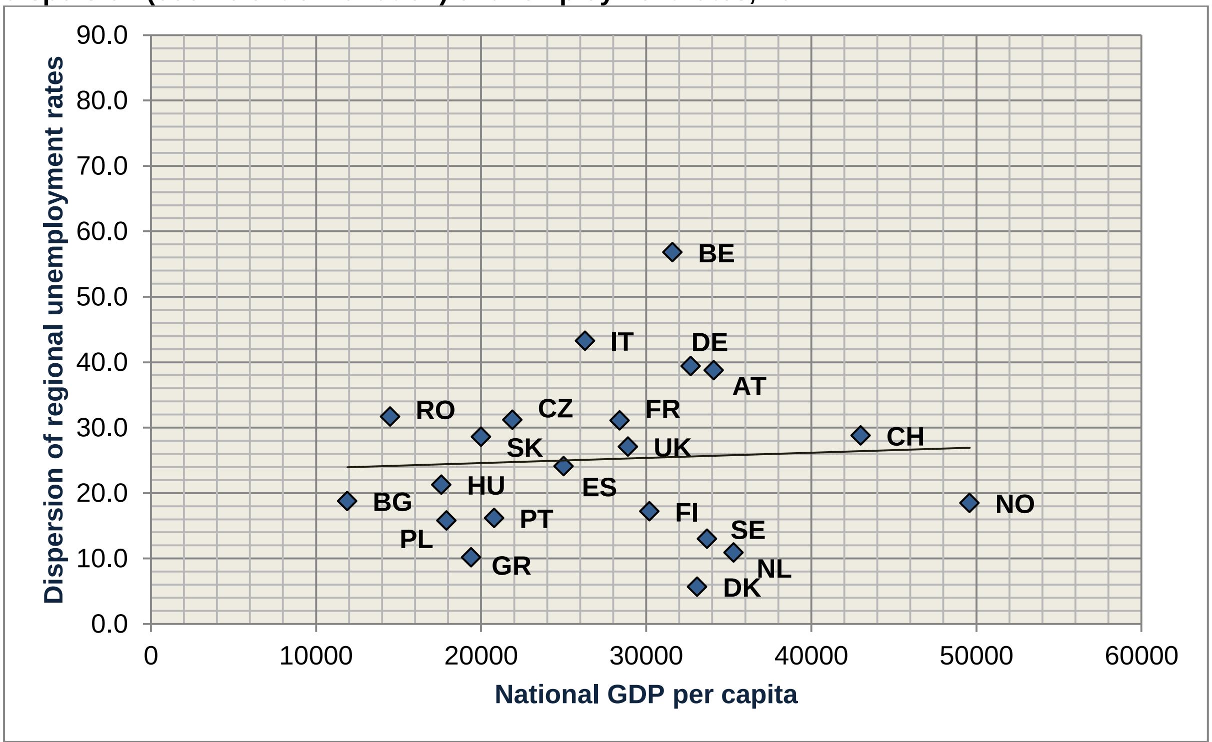
Note: R-squared is 31.0 percent.
Source: EPRC calculations based on Eurostat data.

Figure 8: Correlation between national GDP per capita and the regional dispersion (coefficient of variation) of household disposable income per capita, 2012



Note: R-squared is 26.3 percent.
Source: EPRC calculations based on Eurostat data.

Figure 9: Correlation between national GDP per capita (PPS) and the regional (NUTS 2) dispersion (coefficient of variation) of unemployment rates, 2012



Note: R-squared is 0.3 percent.
Source: EPRC calculations based on Eurostat data.

3. THE OBJECTIVES OF REGIONAL POLICY

KEY FINDINGS

The **formal objectives of regional policy** (commonly set in legal or strategic documents) can be grouped as follows:

- **Nationwide growth**: countries where the primary objective is to support national competitiveness or tap the potential of all regions;
- **Reduction of regional disparities**: countries where the aim is to encourage the development of ‘problem regions’;
- **Mix of objectives**: countries where both objectives are pursued in tandem.

The **nationwide growth focus** is dominant in most of the Central and Eastern European Member States. This approach has been fostered by the Cohesion policy focus on EU-wide growth, especially as many of these countries are fully or largely designated as Less Developed Regions and thus the main focus is on national economic convergence.

The growth focus is also evident in countries where the focus is on **the potential of all regions**. This group encompasses a broad range of countries, including those that are relatively small and prosperous (e.g. ***Austria, Denmark***), but also those with more significant disparities (e.g. ***Belgium***).

The **goal of reducing regional disparities** is often rooted in a constitutional commitment, and characteristic of large countries with significant macro-regional differences (e.g. ***Germany, Spain***).

Some countries are seeing a rebalancing between the growth / disparity objectives, and are pursuing **both objectives simultaneously**. For instance in the ***Nordic countries***, there is a high level commitment to addressing the disadvantages facing the sparsely-populated regions, but also an increasing emphasis on supporting all regions.

The **primary emphases of regional policy objectives have remained stable in 2014-15**. Nonetheless, some shifts in focus are evident, with a more explicit focus on ‘horizontal’ themes, specific territorial areas, as well as a clear employment orientation.

3.1 Introduction

Regional policy goals typically focus on growth and/or equality. This chapter considers whether countries’ primary regional policy objective is **to promote ‘national growth’, to ‘reduce regional disparities’, or a combination of the two** (Section 3.2). It then discusses changes in objectives (Section 3.3), and examines the key themes embedded in the objectives (Section 3.4).

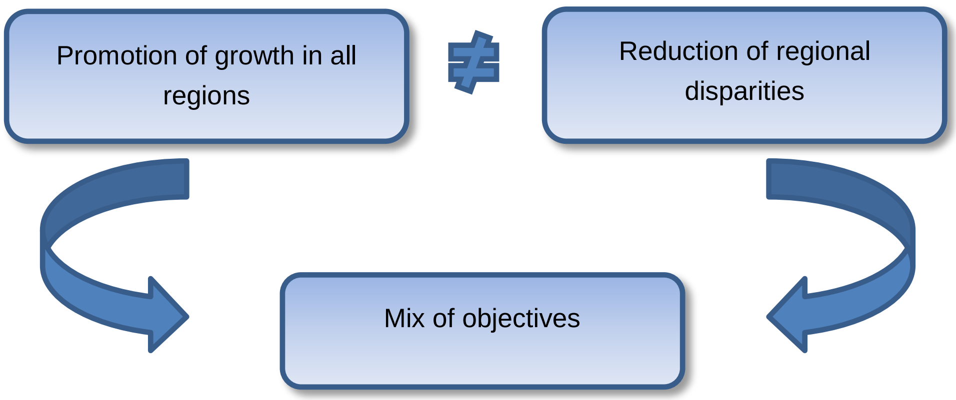
The chapter focuses on the **formal objectives of regional policy, as stated in constitutional, legal or policy documents**, which may or may not be fully reflected in the actual allocation of funding. The aim is to group countries, depending on the **primary orientation of formal objectives**, while also recognising secondary goals, and also acknowledging shifts in the weighting of objectives over time, depending on domestic circumstances or external factors (e.g. EU priorities).

3.2 Categorising regional policy objectives

Countries set the objectives of regional policy in different types of documents, including constitutions, primary legislation, or policy documents (e.g. strategies, white papers and plans). In some countries, however, there are no formal objectives (***Ireland***) or no national strategy for regional policy as this policy field has been devolved to the subnational level (***Belgium, United Kingdom***).

Because **countries may set multiple regional policy objectives,** sometimes in different documents, it is challenging to divide countries into distinct categories. However, the aim here is to assess whether the primary orientation of the objectives is to promote **'nationwide growth'** (also referred to as 'efficiency' or 'competitiveness' objective), or to reduce **'regional disparities'** (also referred to as 'equity' objective). A nationwide growth approach in regional policy is typically interpreted as maximising the contribution of all regions to national growth, whereas the regional disparity approach aims primarily to reduce socio-economic differences between regions. In practice, the differences are not so clear cut, and therefore regional policies in many countries involve **a mix of the two objectives**. The emphasis of the objectives and indeed the way in which they feed through into policy instruments varies over time, often owing to political will and budgetary pressures.

Figure 10: A typology of regional policy objectives



3.2.1 Promotion of growth in all regions

The primary objective of countries in this category is to increase regional and national growth, often with a focus on themes such as innovation. This category can be further divided into two sub-groups (see Figure 11).

First, it includes **countries where the regional policy objectives have a nationwide reach and the main emphasis is on promoting national economic growth**. This group includes:

- Countries where there is **no prominent regional dimension**, often because the country is small and/or has limited regional disparities (e.g. ***Ireland, Luxembourg, Malta, Cyprus*** and ***Netherlands***).
- Countries where **regional needs may be prominent, but the current emphasis is on improving the national situation.** This approach is seen in countries with domestic regional development objectives, but where there is a strong focus on national economic convergence,

often due to the influence of Cohesion policy (e.g. ***Central and Eastern Europe***). It may include a policy emphasis on the potential of specific areas (urban centres) which are viewed as having the greatest capacity to spur economic growth (e.g. ***Poland, Bulgaria***).

Second, the nationwide growth category includes **countries where the emphasis is on tapping the potential of all regions**, which may also have a minor focus on reducing regional disparities. These countries typically set regional policy objectives in terms of the provision of equal living conditions across the country by supporting economic development in all regions. This group includes:

- **Small and prosperous economies** in the EU context, including ***Austria*** and ***Denmark***, which have limited regional disparities, and where there is a focus on business development.
- **Countries with wider disparities**, such as ***Belgium*** and ***United Kingdom*** (England and Northern Ireland), where the main focus is on regional or sub-regional (local) competitiveness from the perspective of enhancing national growth.
- Countries where support is targeted on all regions, but with a **differentiated approach according to area-specific potential and needs**, such as the ***Czech Republic*** and ***France***.

Figure 11: Promotion of growth in all regions

National growth

- **BG**: increasingly nationwide growth & competitiveness; also structurally weak regions
- **CY**: restructuring the economy, increasing competitiveness
- **EE**: national economic growth, acknowledges needs of different regions
- **GR:** development of the country; also regional disparities
- **HR**: sustainable national growth; all areas to realise development potential
- **HU**: national economic development; also regional disparities
- **IE**: no formal objectives; national growth
- **LT**: national economic convergence; also regional disparities
- **LU**: national industrial and economic policy dominates
- **LV**: economic growth of all regions; also reduction of regional differences
- **MT**: limited spatial orientation
- **NL**: new enterprise policy with close links to regional clusters
- **RO**: international competitiveness; also regional disparities
- **SK**: shift from problem region focus to competitiveness

Potential of all regions

- **AT**: perceived as a tool to improve quality of life in all parts of country
- **BE**: job creation and competitiveness
- **CZ**: differentiated support for all regions; regional competitiveness
- **DK**: regional growth potential (green economy, welfare technology)
- **FR:** territorial equality (promoting innovation and investment and reducing inequalities)
- **UK (E)**: more balanced economy; focus on local growth
- **UK (NI)**: competitiveness and export-led growth

3.2.2 Reduction of regional disparities

A limited number of countries retain a **strong 'problem region' focus in regional policy** (see Figure 12). This group contains geographically large countries (***Germany***, ***Spain***) where prominent regional differences are seen as the principal focus for spatially differentiated policies, and where there are well-funded domestic regional policy instruments.

Figure 12: Reduction of regional disparities

Reduction of regional disparities

- **DE**: reduction of regional economic disparities
- **ES**: reduction of disparities; facilitation of solidarity

3.2.3 Mix of objectives

Recent decades have seen the introduction of all-region policies aimed at increasing regional and national competitiveness in a number of countries, alongside an existing emphasis on spatially-targeted measures (e.g. business aid schemes for general investment in designated problem areas) (see Figure 13). In consequence, the dual goals of **nationwide/regional growth and the reduction of regional disparities are pursued simultaneously.**

Figure 13: Growth and reduction of disparities

Mix of objectives

- **CH:** support for structural change and growth in regions needing to adapt their framework conditions; also cohesion
- **FI**: growth across the country, but resources benefiting areas with structural economic weaknesses (east and north)
- **IT**: equal economic growth including structurally weaker regions, especially in the south
- **NO**: dual far north / peripheral and all region focus
- **PL**: all strategies reflect the balance between growth (primary objective) and equality (secondary objective)
- **PT**: promoting balanced growth; addressing specific disparities (cities, islands, coast and interior)
- **SE**: growth across country, but resources focussed on sparsely populated / peripheral areas (north and centre)
- **SI**: entire territory, with an emphasis on areas with development problems
- **UK (S)**: acceleration of economic recovery by tackling unemployment & employability
- **UK (W)**: addressing systematic issues within the economy with investments in infrastructure, skills and the business context

A mixed approach takes different forms across countries:

- The three Nordic countries of ***Finland**, **Norway*** and ***Sweden*** share an emphasis on regions affected by **peripherality and physical geography challenges, alongside a focus on other regions** (such as industrial areas undergoing restructuring) or a regional policy objective of stimulating the potential of every region.
- There is a **political focus on balanced growth** in a number of countries, as well as concerns over prominent regional disparities (***Poland, Portugal, Slovenia***), sometimes further exacerbated by the economic crisis (***Italy***).
- In **Switzerland**, the primary focus is on **growth, which is expected to contribute to equality**. At the same time, policy objectives supports structural change and growth in those regions needing to adapt their framework conditions.
- A further approach is to emphasise **the role of economic growth and competitiveness in reducing inequality**, as is the case in ***Scotland (United Kingdom*)**.**

3.3 Changes in regional policy objectives in 2014-15

Changes in regional policy objectives are commonly embedded in the process of reviewing strategies revising laws/regulations. **In 2014-15, new strategies have been adopted, although objectives have remained largely unchanged** (***Estonia**, **Hungary**, **Sweden***). Nonetheless, limited shifts in emphasis have taken place or are forthcoming. They include a more explicit focus on 'horizontal' themes, a focus on specific types of territorial area (e.g. rural, travel-to-work areas, regional centres, urban areas), as well as a clearer orientation towards employment (***Estonia**, **Hungary***) (see Table 1 and Section 3.4). For instance, in ***Sweden***, horizontal priorities are at centre stage in the national strategy, which underlines the need to consider environmental, equality and integration perspectives more firmly as part of the regional growth work. This is in line with the Swedish government's efforts to increase cohesion with a more equal division of power between men and women, with all competences taken into consideration regardless of background and age, while also ensuring that environmental and climate considerations are at the heart of the policy.

More substantial changes in objectives are expected in the future. This includes a shift towards favouring the potential of regions (***Ireland***) with greater consideration of area-specific potential (Central and Eastern Europe, e.g. ***Estonia, Bulgaria, Czech Republic***). In many of these countries, the current emphasis is on national economic growth and to a lesser extent on the potential of all regions or reducing disparities. For instance, in ***Ireland***, which has traditionally promoted a national economic policy over a regional approach, the groundwork for a reassessment of the approach to regional policy, including objectives, is underway. The main reason is Ireland's improved national economic situation, which has allowed national authorities to shift their focus from macroeconomic priorities such as reducing the budget deficit (though this is still ongoing) towards balanced regional economic development.

Table 1: Changes in regional policy objectives

Country	New strategy	Significant changes in 2014-15	Significant forthcoming changes
BE	Wallonia: 'Marshall Plan 4.0' (2015)	Wallonia: Focus on energy transition, innovation, territorial economic attractiveness, education and training.	Flanders: Changes to the policy agenda in 2016.
CH			Changes to the New Regional Policy programme in 2016.
CY	Action Plan for Growth & Strategy (2015)	Focus on sustainable economic growth.	Regional policy dimension in strategy to be clarified.
CZ			Plans to specify objectives; develop typology of regions as part of Regional Development Strategy in 2015.
EE	Regional Development Strategy 2014-20 (RDS)	Emphasis on travel-to-work areas and regional centres; move towards regional entrepreneurship and employment.	Cohesion policy and domestic RDS signal a stronger focus on the development needs of different regions.
FI			New priorities being developed in 2015 as part of a new Government decision for 2015-19.
GR			Related documents, e.g. Regional Frameworks of Spatial Planning to be revised in 2015.
HR			Strategy for Regional Development being revised.
HU	National Development & Territorial Development Strategy (2014)	More focus on economic development and employment.	
IE		Gradual shift of focus from macroeconomic priorities towards reconsidering balanced regional economic development.	National Spatial Strategy 2002-20 due to be replaced in 2016 as seen as no longer fit for purpose; Regional Planning Guidelines to be replaced by 3 Regional Spatial and Economic Strategies.
LT	National Progress Programme for 2014-20	Focus on even & sustainable development with decreasing disparities.	
NL			Spatial Economic Development Strategy to identify tasks in relation to city networks and ports; Urban agenda (City Deals) with focus on growth, innovation and welfare.
PL			'Mid-term' evaluation of the National Strategy for Regional Development planned for 2016-17.
SE	National Strategy for Sustainable Regional Growth & Attractiveness (2014)	More focus on environment, equality, integration.	
SK	National Strategy for Regional Development revised (2014)	Reflects the government objectives for 2012-16, takes into account Europe 2020, Cohesion policy, PA, and the assessment of the achievement of objectives set in 2010.	
UK (S)		Expanded borrowing powers in 2015-16 to support infrastructure investment.	Devolved income tax powers are being introduced in 2016-17.

3.4 The thematic focus of regional policy

The **thematic orientation of regional policy objectives** has increased following the alignment of Cohesion policy with the Europe 2020 strategy and the requirement on countries to allocate funding across 11 Thematic Objectives in 2014-20 (see also Section 4.2). This development has been notable particularly in Central and Eastern European Member States where Cohesion policy accounts for a substantial proportion of regional development spending. These themes are also an important reference framework for countries outside the EU, such as Switzerland, where they are perceived to be in line with the New Regional Policy.

Table 2: **Key themes featured in the regional policy objectives**

Innovation & R&D	• **Stronger focus due to 'smart specialisation'** • **Specific themes highlighted**, e.g. welfare technology (e.g. DK)
Energy & environment	• CP in particular marks a shift towards themes such as **low-carbon, climate change**, **environment** and **resource efficiency**
Equality & cohesion	• **Gender equality**: e.g. AT, SE, CY • **Social cohesion**: e.g. HU, SE, SK, CY, PT • **Integration & disadvantaged communities**: e.g. SK • **Wellbeing**: e.g. UK (Scotland)
Territorial issues	• **Attractiveness / living environment**: e.g. SE, EE (in travel-to-work areas), FI, LT (infrastructure) • **Rural focus**: e.g. LT, SE, SK • **Urban focus**: ITI approaches; Urban Agenda (e.g. NL) • **Territorial cooperation**: e.g. AT, HR, SE
Governance & capacity	• **Improvements to public admin**: e.g. CZ, LT, UK (Scotland), IT • **Administrative capacities**: e.g. LV, IT
Education & skills	• **Labour skills**: e.g. AT, SE, NO, SK, UK (Wales) • **Education & learning**: e.g. DK, SK, UK (Scotland) • **Human capital**: e.g. BG, PT, IT (South)
Sector focus	• **Various sectors**: e.g. in Wales, ICT; energy, environment; advanced materials, manufacturing; creative industries; life sciences; financial, professional services; in Italy, 'made in Italy'-approach & focus on high-technology sectors (Centre-North) • **Top-sector policy**: NL
Labour market	• **Labour markets in a knowledge economy**: e.g. NO (larger labour markets) • **Employment**: e.g. PT (including skilled jobs) • **Mis-match of labour**: e.g. UK (England), NO • **Youth employment**: e.g. CY

4. THE FUNDING OF REGIONAL POLICY

KEY FINDINGS

The 2008 crisis and subsequent economic downturn have generated **funding constraints** for regional policy, partly due to a shift in focus towards national growth or macroeconomic stability. **Pressures on the EU budget** and the decision to **align EU Cohesion policy with the Europe 2020 Strategy** have also altered funding allocations between Member States, regions and themes.

Data on **Cohesion policy funding allocations** provide an overview of a wide range of funding oriented towards regional (and sometimes also national) development. This information shows that **the level of funding allocations is stable in most wealthy countries in 2014-20** compared to 2007-13, in constant prices and as a percentage of national GDP. However**, funding levels have fallen in a number of poorer countries,** partly because of increases in these countries' GDP over the past decade but also because a lower proportion of the total Cohesion policy package has been allocated to the poorest countries and regions in 2014-20.

Information on **the allocation of resources by Thematic Objective (TO) across all European Structural and Investment (ESI) Funds** shows that the highest funding allocation is for TO3 SME Competitiveness and TO6 Environment & Resource Efficiency, followed by TO7 Sustainable Transport, TO9 Social Inclusion & Poverty, and TO1 Research & Innovation.

Data on regional State aid funding shows that **there is no clear link between national prosperity and the level of regional aid as a percentage of GDP** in 2011-13. The highest levels of regional aid are seen in *Greece* and the *Czech Republic,* and the lowest levels in ***Austria, Belgium, Finland, Luxembourg, Sweden, the United Kingdom, the Netherlands*** **and** ***Denmark*****.**

4.1 Introduction

The consequences of the 2008 crisis and subsequent economic downturn have generated **funding constraints for regional policy** in many countries, sometimes due to a shift in focus towards national growth or macroeconomic stability. Similarly, **pressures on the EU budget** and the **decision to align EU Cohesion policy with the Europe 2020 Strategy** have led to changes in the allocation of funding between Member States, between types of region and between thematic interventions.

There are two sources of comparable data on regional policy funding across European countries, namely (a) on the **allocation of Cohesion policy funding**, and (b) on **regional State aid funding**, published in annual State aid reports by DG Competition and the EFTA Surveillance Authority. Some individual countries also publish data on regional policy budget allocations and/or actual expenditure. However, this information is not comparable across countries. Even within individual countries, it can be difficult to demarcate regional policy from other budget lines, as well as to avoid double-counting, for example because instruments are co-funded from various EU and domestic sources.

This chapter starts by examining the **overall scale of Cohesion policy funding across Member States in 2014-20** compared to 2007-13 (Section 4.2.1), before describing the **allocation of ESI**

Fund resources between Thematic Objectives in 2014-20. It then provides an overview of the most recently published data on **regional State aid spending across countries**.

4.2 Cohesion policy allocations

4.2.1 The scale of Cohesion policy funding in 2007-13 and 2014-20

Cohesion policy is an important source of funding for regional development and also shapes the geographical and thematic allocation of domestic regional policy funding, particularly because it requires countries to co-finance Cohesion policy programmes over a seven-year period. In poorer EU Member States, Cohesion policy can account for a significant share of total public capital expenditure and funding for national economic development.

Cohesion policy funding is allocated to all EU regions and because designation criteria are set at EU-level. This means that Cohesion policy funding is not necessarily concentrated on those regions which are seen as structurally weak from a national perspective (e.g. in countries where most regions fall into the same Cohesion policy category). Individual countries can decide to weight EU funding more strongly towards structurally weaker regions, through shifts in interregional allocations, through particular programmes, priority axes and schemes, or through project selection criteria.[14]

Table 3 and Figure 14 compare Cohesion policy annual average allocations in 2007-13 and 2014-20, with all data in 2011 prices and as a percentage of 2011 GDP. They show that there has been little change in the level of funding to wealthier countries in 2014-20 (as a percentage of GDP in constant prices). In contrast, **funding allocations to a number of poorer countries are lower in 2014-20 than in 2007-13 (as a percentage of GDP)**, partly because of increases in these countries' GDP over the past decade, and also because a lower proportion of the total Cohesion policy package is being allocated to the poorest countries and regions in 2014-20.

Table 3: Cohesion policy allocations in 2007-13 and 2014-20 (% of GDP)

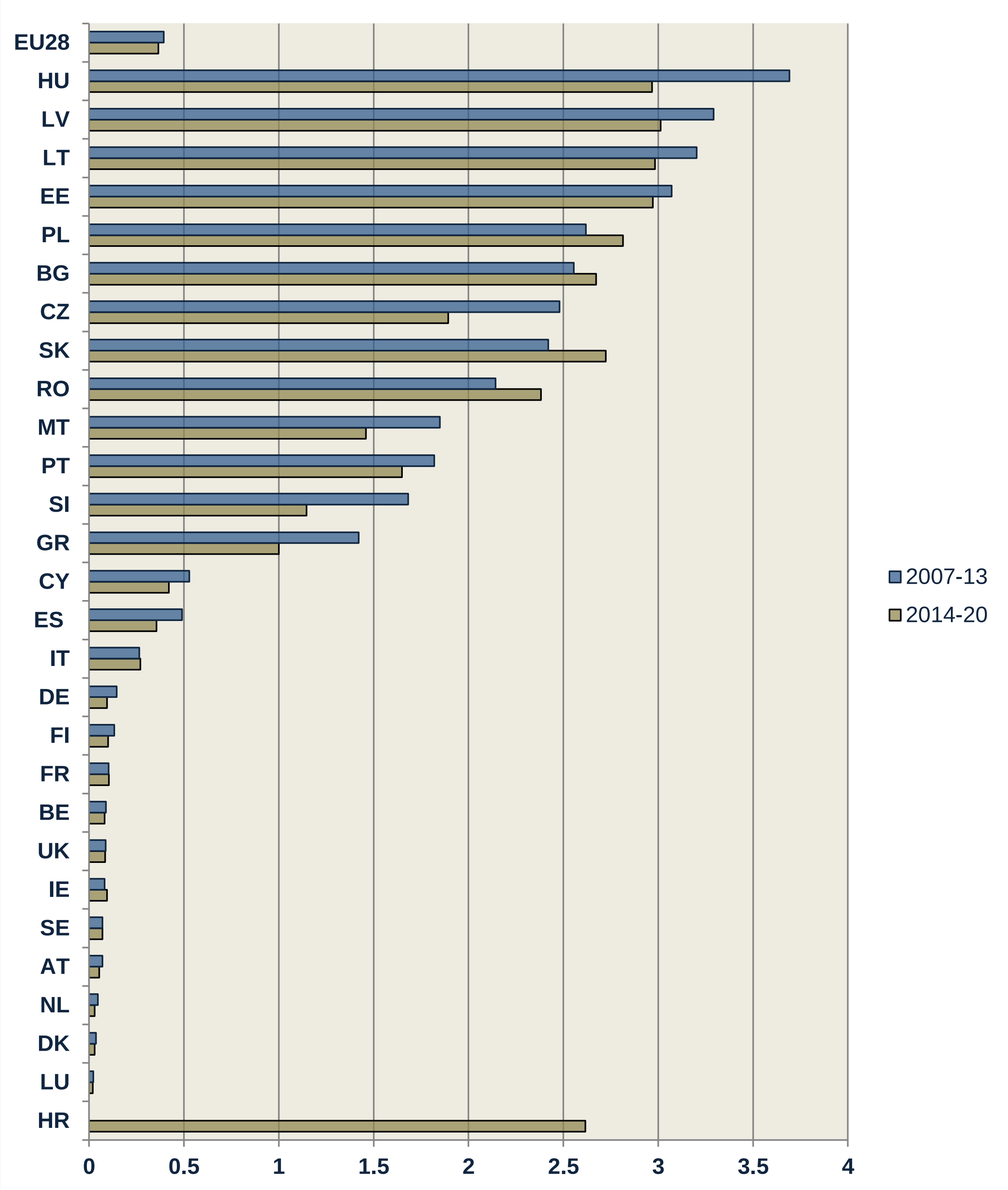
	2007-13	2014-20
3.5-4.0%	Hungary	
3.0–3.5%	Estonia, Latvia, Lithuania	Latvia
2.5-3.0%	Bulgaria, Poland	Bulgaria, Croatia, Estonia, Hungary, Lithuania, Poland, Slovakia
2.0-2.5%	Czech Republic, Romania, Slovakia	Romania
1.5-2.0%	Malta, Portugal, Slovenia	Czech Republic, Portugal
1.0-1.5%	Greece	Greece,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

Source: EPRC calculations based on European Commission data.

Note: Annual average allocations in constant 2011 prices, as a percentage of 2011 GDP, with all data in euros.

[14] See the EoRPA Country Cohesion policy fiches for more information.

Figure 14: Cohesion policy annual indicative allocations in 2007-13 and 2014-20 (as % of GDP)



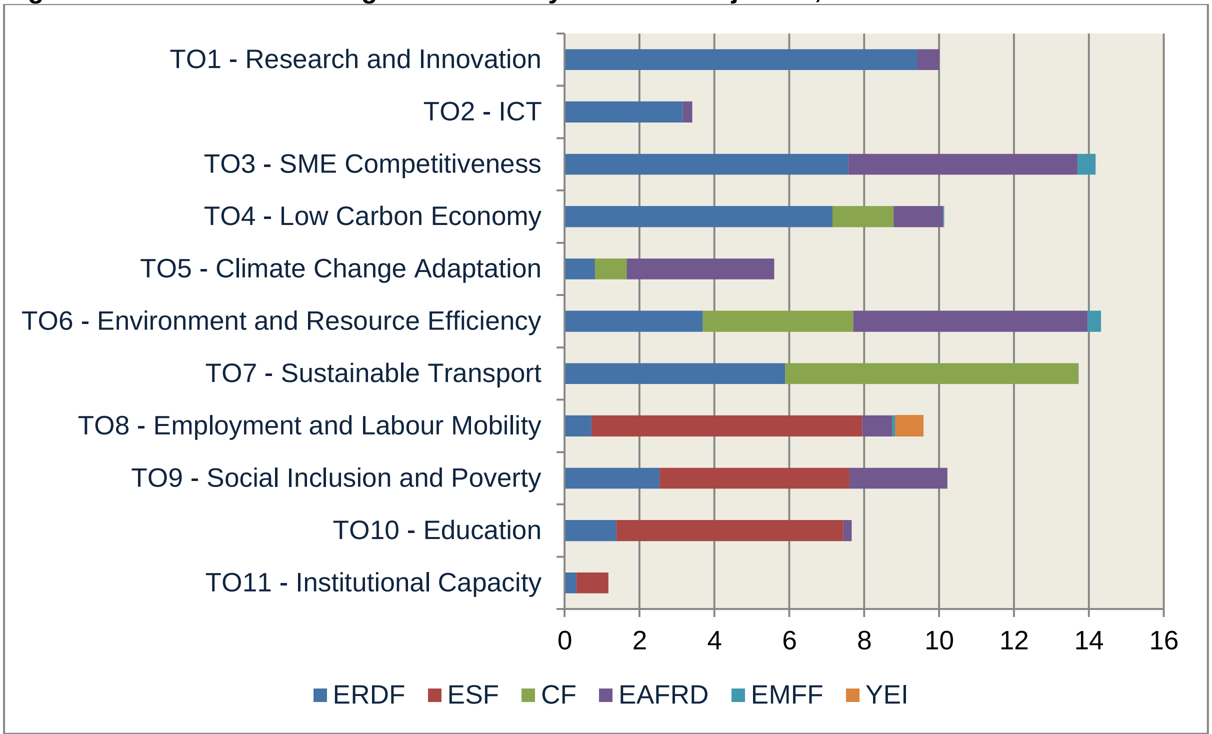
Source: EPRC calculations based on European Commission data.

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

4.2.2 The thematic focus of Cohesion policy funding in 2014-20

Figure 15 shows the ex ante allocation of Cohesion policy funding by Thematic Objective across the EU28 (including all ESI Funds). The funding allocation is highest for TO3 SME Competitiveness and TO6 Environment and Resource Efficiency, followed by TO7 Sustainable Transport, TO9 Social Inclusion and Poverty, and TO1 Research and Innovation. The lowest level of funding is for TO11 Institutional Capacity and TO2 ICT.

Figure 15: EU28 ESIF funding allocations by Thematic Objective, % of EU total



Source: EPRC calculations based on Partnership Agreements
Notes: (1) Data are in European Commission current prices. **(2)** Data for the EMFF are not included for Germany, Denmark, Greece, Poland or Sweden.

In terms of the percentage of funding for each Thematic Objective by Member State:[15]

- The highest percentage of funding for TO1 Research and Innovation is in the Netherlands, Estonia and Germany, and the lowest in Romania, Austria and Bulgaria;
- The highest percentage of funding for TO2 ICT is in Cyprus and Sweden, with zero allocations in Belgium, Denmark, Luxembourg and the Netherlands;
- The highest percentage of funding for TO3 SME Competitiveness is in Portugal, Luxembourg and Slovenia, and the lowest in the Czech Republic, Slovakia and Ireland;
- By far the highest percentage of funding for TO4 Low Carbon Economy is in Luxembourg, followed by Lithuania and Ireland, and the lowest in Austria, Denmark and Sweden;
- The highest percentage of funding for TO5 Climate Change Adaptation is in Austria, Denmark and Ireland, with zero funding allocated in Luxembourg and low levels also in Poland and Malta;

[15] For more detail, see: EPRC (2014) 2014-20 Cohesion policy update, *EoRPA Policy Briefing*, December 2014, http://www.eprc.strath.ac.uk/eorpa/partner_briefing_papers.php

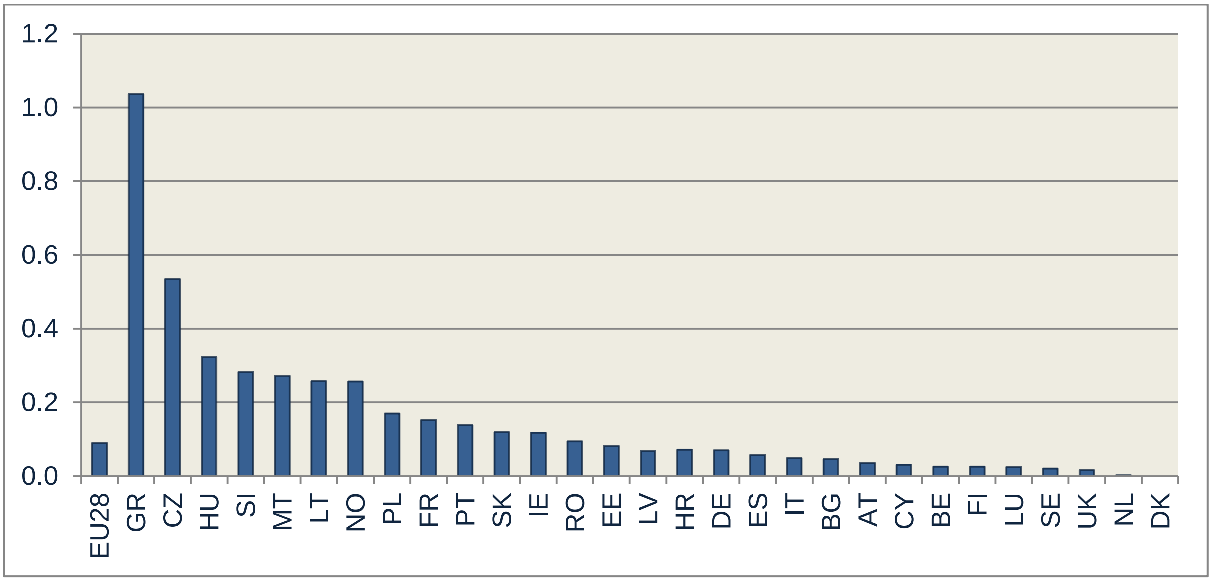
- The highest percentage of funding for TO6 Environment and Resource Efficiency is in Finland, Malta and Austria, and the lowest levels in Estonia and Germany;
- The highest percentage of funding for TO7 Sustainable Transport is in Poland, the Czech Republic and Slovakia, with zero funding allocated in Austria, Belgium, Germany, Denmark, Finland, Ireland, Luxembourg and the Netherlands;
- The highest percentage of funding for TO8 Employment and Labour Mobility is in Belgium, Hungary and Spain, and the lowest in Austria and Malta;
- The highest percentage of funding for TO9 Social Inclusion and Poverty is in the Netherlands, Germany and Belgium, and the lowest in Cyprus, Finland and Greece;
- The highest percentage of funding for TO10 Education is in Portugal, the United Kingdom and Belgium, and the lowest in the Netherlands, Luxembourg and Cyprus;
- Last, the highest percentage of funding for TO11 Institutional Capacity is in Estonia, Hungary and Romania, with zero funding allocated in Austria, Belgium, Germany, Denmark, Finland, Ireland, Luxembourg, the Netherlands, Sweden and the United Kingdom.

4.3 Regional State aid expenditure

The EU and EFTA publish data on regional aid expenditure as a percentage of GDP. Figure 16 shows that, except for ***Greece***, regional aid was below one percent of GDP in all EU Member States in 2011-13, and particularly low in ***Denmark, the Netherlands, the United Kingdom, Sweden*** and ***Luxembourg***. However, this information is characterised by a number of weaknesses:

- It only covers public expenditure which is defined as regional aid, rather than other forms of regional policy spending (e.g. on infrastructure, some SME aid, and bottom-up interventions);
- The EU and EFTA do not state which schemes are included in the data;
- Data may not be comparable across countries e.g. in terms of whether they involve budget allocations, actual expenditure or estimates, and also in terms of whether they cover only domestic expenditure or also EU Cohesion policy co-financing.

Figure 16: Regional aid as a percentage of GDP, 2011-13



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

The regional aid data for 2011-13 show that there is **no clear correlation between a country's level of GDP per capita and the level of regional aid as a percentage of GDP.** The data can be used to divide countries into five categories:

- The highest levels of regional aid are seen in ***Greece*** (1.04 percent of GDP) and the ***Czech Republic*** (0.54 percent of GDP),
- Levels are also relatively high in ***Hungary, Slovenia, Malta, Lithuania*** and ***Norway*** (between 0.26 and 0.32 percent of GDP),
- Spending levels are moderate in ***Poland, France, Portugal, Slovakia*** and ***Ireland*** (between 0.12 and 0.17 percent of GDP),
- Aid is lower (between 0.05 and 0.09 percent of GDP) in some wealthier (***Germany***) and medium countries (***Spain and Italy***) but also in poorer countries (***Romania, Estonia, Latvia, Croatia*** and ***Bulgaria***),
- Levels are generally lowest (less than 0.04 percent of GDP) in wealthier (***Denmark, the Netherlands, the United Kingdom, Sweden Luxembourg, Finland*** and ***Belgium),*** although also relatively low in, for example, ***Cyprus*** and ***Bulgaria.***

5. THE GEOGRAPHICAL FOCUS OF REGIONAL POLICY

KEY FINDINGS

While a focus on **'all regions'** is associated with goals relating to economic growth, an emphasis on **structurally weaker regions** may be seen to contribute both to greater equality (via reduced socio-economic disparities) and to stronger growth (by facilitating the productive use of under-used people, capacities and resources).

Geographical coverage of regional policy is driven partly by EU frameworks (RAG compliance also in Norway) and **partly by domestic frameworks** and political choices (only in Switzerland).

The impact of EU frameworks on individual countries varies, depending on the degree to which they:

- Differentiate between groups of regions within individual countries;
- Constrain the geographical focus of domestic regional policy; and
- Allocate significant or only limited funding, relative to domestic resources for regional policy.

Domestic regional policies can include a **focus on large / macro regions**, notably those with structural economic weaknesses or broader challenges related to peripherality and sparse population. Regional policies may also target a **range of different types of area** (e.g. rural, urban, old-industrial and restructuring areas).

Shifts in the geography of regional policy in 2014-15 relate mainly to the bedding-in of revisions to the regional aid map and Cohesion policy area eligibility for the 2014-20 period, although there have also been minor changes in domestic maps in specific countries.

5.1 Introduction

The geographical dimension of regional policy is its main defining feature. While regional policy has traditionally focused on **structurally weaker areas**, it can also take an **all-region approach** and/or include an emphasis on **areas with potential** or on improving **links between urban centres and rural/peripheral areas**. While a focus on 'all regions' is associated with goals relating to economic growth, an emphasis on structurally weaker regions may be seen to contribute both to greater equality (via reduced socio-economic disparities) and to stronger growth (by facilitating the productive use of under-used people, capacities and resources).

In ***EU countries***, geographical coverage is conditioned by three core drivers: (i) EU State aid control, notably the Regional Aid Guidelines (RAG), (ii) EU Cohesion policy, and (iii) domestic policy frameworks and choices. In the non-EU countries of ***Switzerland*** and ***Norway***, policy is largely determined by domestic decisions, although ***Norway***'s membership of the EEA implies compliance with the EU's Regional Aid Guidelines.

This chapter looks first at the **role of EU frameworks in influencing the geographical orientation** of regional policies (Section 5.2). It then discusses the **geographical focus of regional policy** in different countries (Section 5.3), before examining **changes in geography in 2014-15** (Section 5.4).

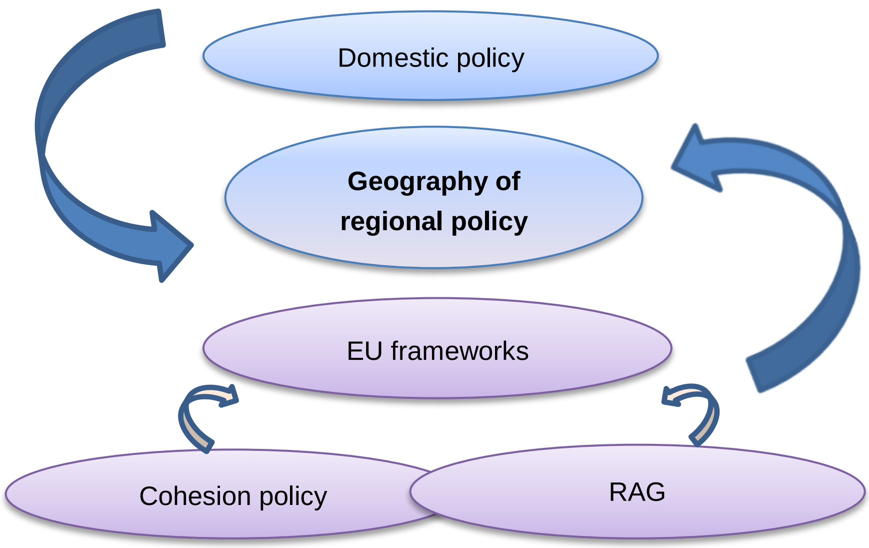
5.2 The roles of EU frameworks

5.2.1 EU regional State aid control and Cohesion policy

EU frameworks, namely Cohesion policy and the Regional Aid Guidelines, play an important role in shaping regional policies. However, their influence on the geographical orientation of interventions varies across countries, depending on:

- The extent to which EU frameworks differentiate between groups of regions within an individual country (i.e. Article 107[3][a] / Article 107[3][c] / non-designated, or Less Developed Regions / Transition Regions / More Developed Regions);
- Whether the EU Regional Aid Guidelines constrain the geographical focus of domestic regional policy (including the entities targeted and aid intensities allowed); and
- The level of Cohesion policy funding, relative to domestic funding for regional policy.

Figure 17: Factors influencing the geographical focus of regional policy

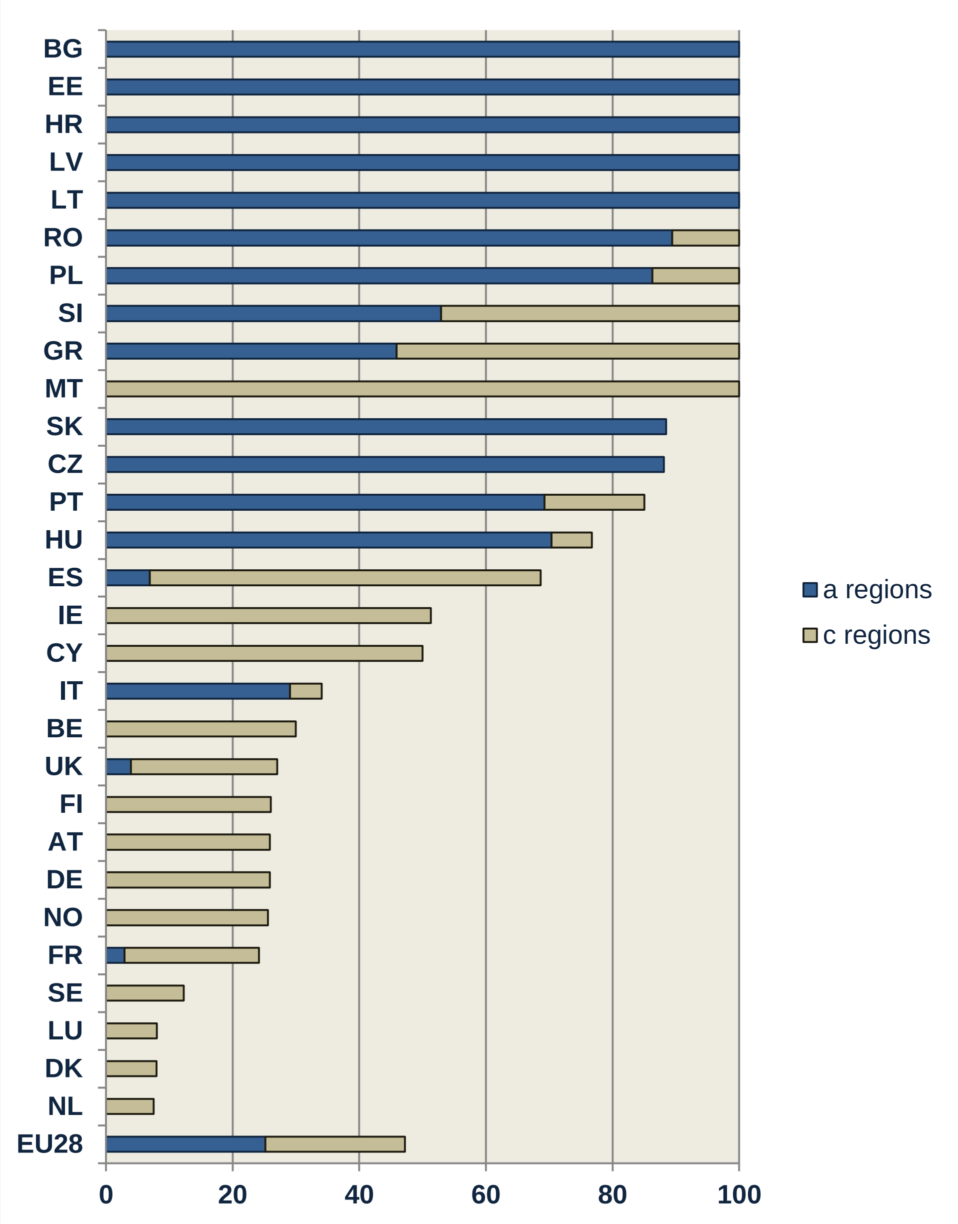


5.2.2 EU regional State aid control

The Regional Aid Guidelines determine the geographical areas (and the level of aid intensities) where companies can receive regional State aid. The current areas are illustrated in the population coverage of the regional aid maps for 2014-20 (Figure 18). Population coverage varies considerably, from over 80 percent in many of the ***Central and Eastern European countries***, the ***Baltic States*** and ***Greece***, to less than 15 percent in ***Denmark***, ***Luxembourg***, the ***Netherlands*** and ***Sweden*** (see Figure 18). In addition, there is great variation with regards to the aid intensities between and within these areas based on the development level of the region and the size of the company.[16]

[16] See more detail at S. Davies, M. Ferry and F. Gross (2014) *Policy Reform under Challenging Conditions: Annual Review of Regional Policy in Europe*, EoRPA Paper 14/1, Paper prepared for the 35th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014, pp.29-30

Figure 18: Regional aid map coverage in 2014-20 (% of population)



Source: EPRC, based on EU data

5.2.3 Domestic additions to the EU regional aid map

Some countries include additional categories of region in the EU regional aid maps, in order to ensure that there is targeted support for areas that are seen domestically as in need of additional support, but that do not fit within the population ceiling of the EU regional aid map.

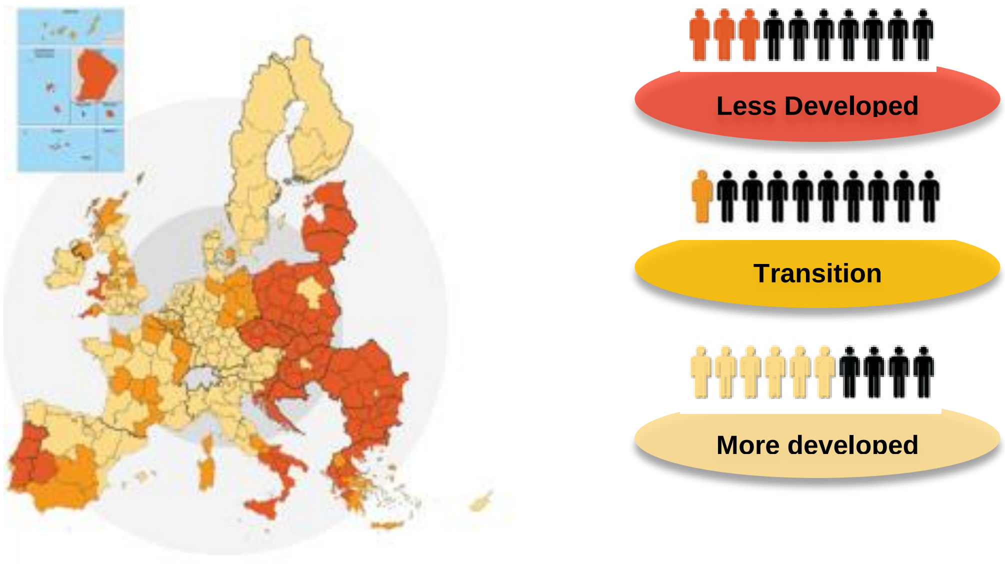
In ***Germany***, the regional map also includes so-called 'D' areas, namely structurally weaker areas that do not qualify under Article 107(3)(c) and that cover around 14.4 percent of the population in 2014-20 (in the western *Länder* and Berlin). These areas are eligible for funding from the budget of the Regional Joint Task (GRW), and are also covered by a domestic rule which states that, if a firm applies for aid in one GRW area while at the same time cutting a significant number of jobs in another GRW area, then the agreement of the *Land* experiencing job-cuts must be obtained or the aid ceiling in the new location will be the same as in the original location.

In ***Finland***, in addition to Aid Area 1 (covered by Article 107(3)(c) under the sparse population criterion) and Aid Area 2 (as non-predefined Article 107(3)(c) areas), the regional aid map also designates Aid Area 3 for domestic purposes where more limited forms of support are available.

5.2.4 EU Cohesion policy

A key feature of EU Cohesion policy is that **all EU regions receive funding, although funding levels vary across three categories of region**: Less Developed, Transition and/or More Developed regions in 2014-20 (Figure 19).[17] In those countries with different types of region, Cohesion policy plays a substantial role in shaping the geographical distribution of regional policy funding (***Belgium***, ***France***, ***Germany***, ***Greece***, ***Italy***, ***Slovenia***, ***Spain***, ***United Kingdom***). In most other countries, however, the role of Cohesion policy in determining which regions benefit most from regional policy funding is less clear, as the entire country is covered by Less Developed or More Developed region status, or only a small percentage of the national population is covered by a different region type (***Austria***, ***Portugal***), or only the capital city region is different (***Czech Republic***, ***Hungary***, ***Poland***, ***Romania***, ***Slovakia***).

Figure 19: Cohesion policy – eligible regions



Source: Adapted by EPRC from the presentation of European Commission 'The Reformed EU Cohesion Policy', http://ec.europa.eu/regional_policy/sources/docoffic/official/regulation/pdf/2014/presentation_final_en.ppt

[17] For more detail see: S. Davies, M. Ferry and F. Gross (2014) *Policy Reform under Challenging Conditions: Annual Review of Regional Policy in Europe*, EoRPA Paper 14/1, Paper prepared for the 35th meeting of the EoRPA Regional Policy Research Consortium at Ross Priory, Loch Lomondside, 5-7 October 2014, pp.31-33

5.3 Countries' domestic approaches to regional targeting

Despite the emergence of 'all-region' policies, including in the context of Cohesion policy, many countries retain instruments which target specific parts of their territory and which are seen to be characterised by diverse challenges. These instruments may be focused on relatively large regions with distinct structural economic weaknesses, or may instead be oriented towards smaller areas with varied types of weaknesses and strengths.

5.3.1 Focus on large and macro regions

This group includes a range of different countries (see Table 4). On the one hand, there are those such as ***Germany, Italy, Poland*** and ***Spain***, where the geographical focus of regional policy funding is on macro regions or large areas with structural economic weaknesses. In ***Germany***, for example, the domestic Regional Joint Task (GRW) designates areas on the basis of a composite indicator that draws on: (i) unemployment rates, (ii) gross annual wages per employee, (iii) an infrastructure indicator, and (iv) an employment forecast. In both 2007-13 and 2014-20, a single methodology has been used to designate areas in both western and eastern *Lãnder.* In ***Italy***, 80 percent of the resources of the domestic Fund for Development and Cohesion (FSC) in 2014-20 is earmarked for the eight southern regions, even though only five of these regions are covered by Article 107(3)(a) and Less Developed Region status (while the remaining three are Transition Regions). As in 2007-13, ***Poland*** has put in place both a domestic Strategy for the Development of Eastern Poland in 2014-20 and a Cohesion policy programme for this macro-region. In addition, Poland is developing strategies for the macro-regions of Western, Central and Southern Poland.

Table 4: Focus on large or macro regions with structural weaknesses

Country	Large or macro region focus
CH	Under the NRP, spatial remit has been increased beyond the most disadvantaged areas.
DE	Eastern *Länder* (with decreasing funding), but also other areas (e.g. domestic 'D' areas).
ES	Instruments focus on less-developed regions covering large parts of the country.
FI	All country, but focus on sparsely-populated areas (east and north).
IT	*Mezzogiorno* plus very limited 'c' coverage.
NO	Peripheral and difficult-to-access regions, with four main spatially-targeted packages.
PL	Domestic strategy plus a Cohesion policy OP for the eastern macro-region; also domestic strategies for western, central and southern macro-regions.
PT	Mostly 'a' areas, but also 'c' areas; focus on low-density areas under Cohesion policy.
SE	All country, but focus on peripheral and sparsely-populated areas (north and centre).

On the other hand, ***Finland, Norway*** and ***Sweden*** retain a specific focus on areas with sparse populations, which are also affected by challenges relating to peripherality and climate. Under the sparsely-populated area status which was introduced in the Accession Treaty of ***Finland*** and ***Sweden*** to the EU in 1995, the northernmost counties in Sweden and East and North Finland benefit from higher levels of Cohesion policy funding and special treatment under EU regional aid policy. ***Norway*** retains specific instruments for peripheral and difficult-to-access regions, including regional investment aid, a social security concession, and package of measures under the Action Zone for Finnmark and Northern Troms.

Switzerland can be seen to have elements of both approaches. Under the New Regional Policy (NRP), the geographical scope of policy has gradually increased from the most disadvantaged and peripheral areas (typically less accessible mountainous areas). For instance, the loans and grants under the NRP include all cantons with the exception of Geneva and Zug (and some other cantons are also expected to stop participating in the future). The tax allowances granted under the NRP have a narrower geographical focus and are currently limited to 30 economically weakest areas (which tend to be mountainous areas), but funding perimeters are to be widened in future to include more cantons with a focus on regional centres.

5.3.2 Focus on varied types of smaller regions

Regional policy in a wide range of countries includes a focus on different types of region or area (rural/peripheral, urban) or **specific themes** (high unemployment rates), as well as areas with broader structural economic weaknesses. Even in countries which are fully designated under Article 107(3)(a) and as Less Developed Regions, there are often instruments or programmes which target particular areas which, from a domestic viewpoint, are seen to be in need of additional support.

(i) Structurally disadvantaged areas

Funding is often focused on regions which show structural weaknesses on a range of economic indicators (e.g. productivity, employment, business creation) (see Table 5).

Table 5: Structurally disadvantaged areas

Country	Structurally disadvantaged areas
BG	All country, with additional Cohesion policy support to structurally weak North-west.
CZ	Underdeveloped regions (i.e. all regions except Prague or narrower focus).
EE	All country, with additional spatial targeting (e.g. action plans for two regions).
FR	Different instruments for varied types of structurally weak regions (tax exemptions, business infrastructure).
HR	All country; domestic assisted areas and areas with developmental particularities.
HU	All country except Budapest and most areas in Pest county; domestic support for ‘underdeveloped districts’.
LT	All country; domestic support for domestically designated structurally weak areas.
LV	All country; some domestic support for structurally weaker municipalities.
NL	Three northern provinces, and an additional package of measues for Groningen
SI	All country; domestic support for areas with specific economic weaknesses.

In ***France***, various instruments operate in assisted areas (tax exemptions, support for business infrastructure), notably the Regional Development Grant (*Prime d’amémagement du territoire*, PAT), while other instruments target different types of ‘territory’, such as rural, urban and old industrial areas. Despite the discontinuation of an explicit regional policy in ***the Netherlands***, the ‘Compensation Fund’ (*Regionaal Specifiek Pakket,* RSP) remains in place for the three northern provinces (and the northern part of Flevoland). In addition, a package of measures has been introduced in Groningen as compensation for some of the negative consequences of gas extraction in the region, as well as structural economic change. In the ***Czech Republic***, two categories of areas are designated for regional policy: first, regions eligible for 'concentrated State aid' (e.g. structurally affected regions, economically weak regions and rural regions); and, second, other regions where State aid is seen as desirable (e.g. former military areas, border regions, regions affected by natural disasters or severe environmental problems or an extreme unemployment rate).

(ii) Areas affected by sudden structural change and high unemployment

Regional policies are also targeting areas which are undergoing rapid structural change due to the closure of businesses or entire industries, often with a particular focus on addressing existing or potential job losses and unemployment rate increases in these localities. ***Belgium (Brussels Capital and Flanders)*** has a spatially differentiated approach to business taxation for firms in zones that have faced job losses due to business closures. The zones are defined by the regions (see Table 6) but in accordance with strict criteria included in federal legislation.

Finland has a framework that enables measures to be launched as soon as sudden structural change with large layoffs takes place, and which brings together different actors and funding streams to address local difficulties. Changes have been introduced to improve forecasting and a proactive approach, as well as links to smart specialisation and experimentation which are seen as needed to ensure regional resilience. In ***the Netherlands***, action plans have been agreed for West Brabant and Zeeland, and for the Twente region, due to business closures or relocations and concerns over unemployment; however, no additional funding has been provided.

Table 6: High unemployment areas

Country	High unemployment areas
BE	Brussels Capital: Stimulated Urban Economy Zone (ZEUS) which provides access to aid for business investment and staff recruitment. Flanders: Two economic zones (Genk and Turnhout), which encompass enterprise parks that are eligible for a reduced business tax rate of 25 percent.
FI	Proactive framework for areas undergoing sudden structural changes
LT	14 problematic territories with high unemployment rates.
NL	Action plans for West Brabant and Zeeland, and for the Twente region.

(iii) Peripheral or rural areas

An additional focus of support is on peripheral or rural areas. In ***Austria***, regional policy has an implicit strategic orientation towards structurally disadvantaged and peripheral areas, including mountainous (centre and south-west) and border regions (north and south-east). There are no major aid schemes, but support aims to develop region-specific potential (e.g. through support for regional management offices). In ***Denmark***, higher levels of support can be provided in some of the areas designated for State aid (small islands), and a relatively larger share of Structural Funds expenditure is available in designated peripheral areas. In ***France***, concessions on taxes and social contributions are available in 'rural renewal zones' covering one-third of French municipalities.

Table 7: Peripheral or rural areas

Country	Peripheral or rural areas
AT	Mountainous regions (centre & south-west) and border regions (north & south-east).
CY	Areas outside the urban centres are subject to the Policy Declaration, which is a general spatial policy framework for rural areas, including 150 local regulatory plans.
DK	Designated small islands (State aid) and peripheral areas (Structural Funds).
EE	Programme for sparsely-populated areas.
FR	Concessions on taxes and social contributions in ‘rural renewal zones’.
MT	Policy focus on Gozo due to its scarce habitation.

(i) Urban areas

There has been a growing focus on urban areas in the regional policies of some countries, including efforts to integrate the two policy fields of regional policy and urban policy (e.g. in ***Poland***) (see Table 8). This approach has been encouraged by EU Cohesion policy, especially in poorer Member States, via a focus on ‘urban centres’, sometimes including capital cities (***Bulgaria, Estonia, Poland***) and at other times focusing on medium-sized cities (***Lithuania***). This approach at times emphasises the role of cities/towns as ‘growth poles’, particularly in catching-up countries. There is also, however, a strong recognition of the complex social, economic and environmental challenges facing many urban areas, which are characterised by engrained social deprivation and poor quality of life.

Table 8: Focus on urban areas

Country	Urban areas
BE	Wallonia: Marshall Plan 2022 promotes the development of urban poles.
BG	Cohesion policy places strong emphasis on polycentric development.
CY	Local and area plans exist in the urban centres of Nicosia, Limassol, Pafos and Larnaca.
FR	Various instruments available for urban areas.
EE	Urban areas of Tallinn, Tartu, Pärnu, Jõhvi, Kohtla-Järve and Narva.
HR	The 2014 Law on Regional Development includes also urban areas.
LT	Regional growth centres; main cities and other smaller cities.
PL	Urban centres crucial hubs influencing the development of regions and the country.

In ***Poland***, urban centres are seen as crucial hubs influencing the development of their entire regions and the country as a whole. This emphasis is reflected in the recent launch of a National Urban Policy that is closely integrated with domestic regional policy and Cohesion policy frameworks and instruments. In ***Lithuania***, the domestic focus on seven medium-sized cities with economic potential and 14 problematic territories in 2007-13 has been expanded in 2014-20 to include three additional groups of area, namely (i) deprived areas in the five main cities, (ii) 23 medium-sized towns with potential (population of 6,000-100,000), and (iii) selected smaller towns (with 1,000-6,000 inhabitants).

5.4 Changes in the geographical focus of regional policy in 2014-15

Following significant changes in 2013-14, with the introduction of the new regional aid maps and the Cohesion policy programmes, **the geographical coverage of regional policy has been relatively stable in 2014-15.** This applies in particular to **regional aid maps**, although the aid map in ***France*** has been extended (to include five municipalities in Bourgogne and one in Champagne-Ardenne) and the map in ***Finland*** has been amended (to include the regions of Viitasaari-Pihtipudas and Äänekoski as part of the quota of non-predefined Article 107(3)(c) areas).

Changes have, however, taken place in relation to **domestic area designation and support**:

- In ***France***, work is being undertaken to develop new typologies of 'fragile territories' at sub-regional level, e.g. based on social inequalities. In addition, urban policy spatial coverage has been under review in 2014, and a reform has been announced of the 'Rural revitalisation areas', although geographical coverage currently remains unchanged.

- In ***Switzerland***, the tax relief instrument under the New Regional Policy (which currently covers the 30 economically weakest areas across 11 cantons, covering 10.1 percent of the population) has been under review in 2015, leading to plans to change the funding perimeter to include more cantons but with funding more focused on regional centres.

- In ***Belgium (Brussels-Capital),*** the regional government introduced a Stimulated Urban Economy Zone (ZEUS) within the EU regional aid map area in 2014, designated on the basis of unemployment rates, income levels, and available space for economic activity. Firms in the ZEUS will have access to aid for investment and staff recruitment. In ***Belgium (Flanders),*** a reduced business tax rate is available in 2014-20 to firms in economic zones in Genk and Turnhout, which have seen significant factory closures. This contrasts with 2007-13, when the regional government decided to apply the same aid rates to SMEs in both Article 107(3)(c) and other areas. In ***Belgium (Wallonia),*** the regional government has ended the micro-zoning approach which provided business aid in urban and rural 'free zones' in 2006-13. This decision followed an evaluation which concluded that – in contrast to aid available in the regional aid map areas – the free zones had no significant effect on business investment.

- In ***Latvia***, a new approach called 'Target Territories for Regional Policy' was introduced in 2014 to support structurally weaker municipalities (*novadi*). These are defined as 'territories with specific challenges and development potential' and replace the previous list of 'specially supported areas' where firms were eligible for automatic tax relief and direct grants.

- In ***Hungary***, the government revised the system of 'underdeveloped districts' in 2014, with fewer indicators for designating districts. In addition, the 2014 National Development and Territorial Development Strategy incorporates geographical aspects into sectoral and regional strategies, including a stronger focus on functional areas.

- In ***Croatia***, for a number of years there have been issues relating to the designation of geographical units for regional policy assistance. In 2014, a new Law on Regional Development was approved, which resolves these issues and defines assisted areas, urban areas and areas with developmental particularities.

6. THE INSTRUMENTS OF REGIONAL POLICY

KEY FINDINGS

Regional policy instruments can be grouped into five main categories, namely:

- **Direct financial and advisory** support to individual businesses, **notably to encourage investment but also job creation**;
- **Packages of support** to regions or smaller areas facing particular economic difficulties;
- Support for **bottom-up development** and capacity-building; and
- Improvements to the **quality of life** and public services/infrastructure in particular locations.

Changes in regional policy instruments in 2014-15 have been driven in part by the impact of the 2014-20 **Regional Aid Guidelines** (including constraints on aid to large firms) and the need for countries to set up new schemes or adapt existing schemes to meet new EU rules. **EU Cohesion policy** is also an important influence in those countries where EU resources comprise a significant source of total regional policy funding.

Other changes aim to respond to the consequences of the crisis and downturn, notably **fiscal constraints**, and the **need for new kinds of intervention**, particularly in areas experiencing rapid structural change. Further changes in instruments are the result of domestic and EU-led pressures to increase the **effectiveness of regional policy** and to **reduce administrative red-tape.**

Future-oriented reviews of regional policy are also underway in a small number of countries, which may result in more comprehensive shifts in instruments.

6.1 Introduction

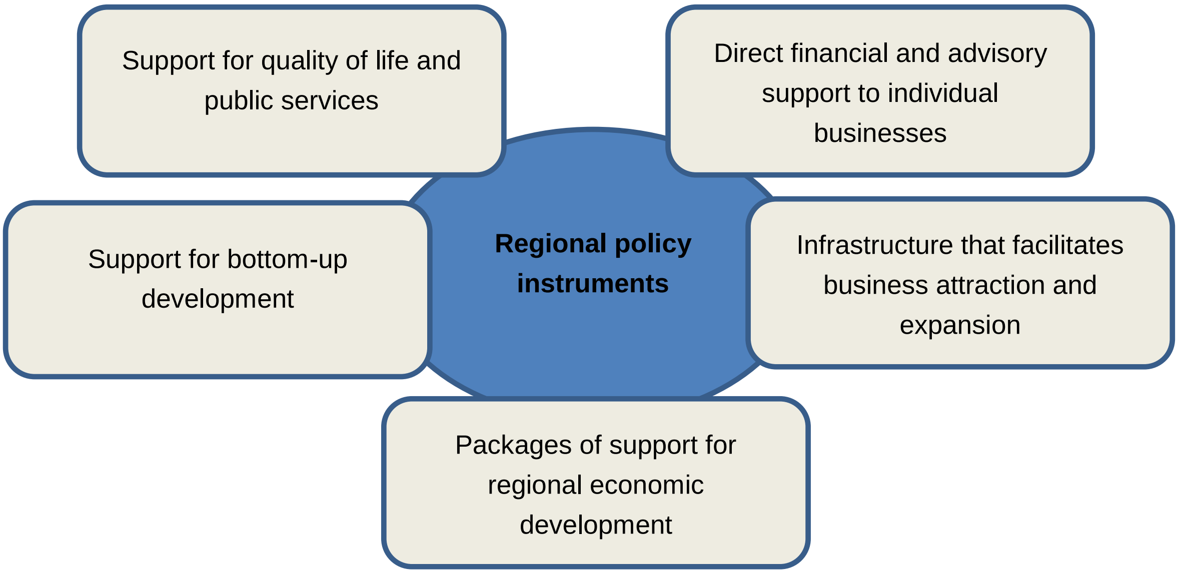
The **range of regional policy instruments has broadened** in recent decades from a narrow focus on business investment aid to include investment in infrastructure, business advisory services, training and R&D/innovation, as well as support for bottom-up development and capacity building. This is partly under the **influence of EU Cohesion policy**, which has long funded a wide range of instruments and continues to target a range of Thematic Objectives in 2014-20. There are also, however, **domestic debates on the types of instrument most able to contribute to regional development**, whether in terms of enhancing allocative efficiency and growth, or addressing the broader aspects of weak development, including peripherality, out-migration, social deprivation, or poor administrative capacity.

After providing a **detailed overview of regional policy instruments across European countries**, focusing on different types of interventions (Section 6.2), this chapter examines changes introduced in 2014-15 (Section 6.3). The **revision of instruments in the past 18 months** has partly been driven by the adoption of the new regional aid regimes and Cohesion policy programmes for 2014-20, with the formal approval and launch of instruments in some countries occurring in 2014-15 and, in some cases, still ongoing. There have also, however, been domestic drivers of reform, such as domestic fiscal constraints, changing economic circumstances, and the election of new governments.

6.2 Typologies of regional policy instruments

Regional policy instruments can be divided into a number of sub-groups (see Figure 20).

Figure 20: Regional policy instruments divided into sub-groups



The following sections provide an overview of each group of instruments, together with country examples, the rationale for these forms of intervention, and potential difficulties or risks associated with these instruments.

6.2.1 Direct support to individual businesses

A first, major category relates to support provided to individual businesses (see Table 9). Measures vary as to their overarching **objective** (business investment, job creation, reducing transport costs…), the **support mechanism** offered (grants, loans, tax allowances…) and the targeting at **different types of firms** (large firms, SMEs, R&D-active firms…). In addition to direct financial aid, support may include advice or mentoring, particularly in the case of SMEs. Some of the schemes are available across the country but offer better conditions in assisted areas (e.g. ***Bulgaria***, ***Finland, France***, ***Italy***) and many combine different forms of support.

Table 3: Direct support to individual businesses

Instruments	Country examples	Rationale	Potential difficulties / risks
Business investment	- Investment grants (most EU15, except NL), many CEE countries - Tax relief on investment (BE, BG, CH, CZ, FR, GR, IT, LT, LV, PL, SK, UK) - Other forms of tax relief (BE, CZ, FR, LV, NO, PL) - Subsidised loans/interest rates (AT, DE, FR, IT, NO, PT, UK) - Loan guarantees (DE, IT, UK) - Equity instruments (DE, IT, SE, UK)	Capital stock & business investment are typically lower in structurally weaker regions	- Constraints of EU competition policy - Public funding (less for interest rate subsidies & guarantees) - Other conditions need to be 'good enough' to attract investment - Deadweight effects - Crowding-out of private investors - Equity instruments: administrative costs - Equity instruments: appropriateness in disadvantaged regions - Tax measures: lack of transparency over costs & benefits - Tax measures – budgeting is difficult
Job creation & skills	- Wage subsidies (DE, RO, SE) - Tax relief on job creation (BE, BG, FR, IT) - Social security concessions (BG, NO, RO, SE, SK) - Training support (BE, BG, DE, EE, PT, SE, UK) - Consultancy grants/vouchers (DE) - Support with administrative procedures (BG, IT)	Employment rates are typically lower in structurally weaker regions; jobs are typically lower skilled in structurally weaker regions	
Start-ups & SME expansion	- Grants, interest rate subsidies, guarantees (BE, CH, DE, FI, IT, PT) - Packages of aid and advice (FI) - Consultancy services, training (IT, PT, SE)	Funding & mentoring/advice can support entrepreneurship & SME expansion; micro-loan funds can support growth of self-employment	- Availability of public funding - Crowding-out of private sector funding - High administrative costs for instruments involving mentoring/advice
RTDI and innovation	- RTDI projects (DE, EE, FI, GR, HR, HU, IT, LT, NL, PT) - R&D infrastructure (DE, LT)	RTDI is an important driver of productivity growth & is typically weaker in structurally weaker regions	- Availability of public funding - Low demand in disadvantaged regions - Is this efficient use of R&D spending? - Inherent risk of R&D projects - Administrative costs of technology transfer
Reducing obstacles to exporting	- Aid covering business transport costs (FI, NO, SE) - Transport infrastructure (ES, FR, IT, NO) - Grants to attend trade fairs (FI, PT, SE)	- Can help retain/attract businesses in periphery by lowering costs - Improved transport infrastructure can reduce trade costs and/or increase the scale of local markets - Grants to attend trade fairs etc. can encourage SMEs to export	- Constraints of EU competition policy (on export aid & transport aid) - Availability of public funding (business transport costs & infrastructure) - Deadweight effects (transport costs) - Improved transport infrastructure can increase competition for local producers

6.2.2 Business-oriented infrastructure

Investment in infrastructure that facilitates business attraction and expansion is an important component of regional policy, not only through Cohesion policy in poorer Member States, but also in, for example, ***Germany*** (through the Regional Joint Task), ***Italy*** (via the domestic Fund for Development and Cohesion), ***Spain*** (through the Inter-Territorial Compensation Fund) and the ***United Kingdom (England)*** (e.g. support for superfast broadband in the Enterprise Zones) (see Table 10). Investment may be targeted at, for example, improving **transport networks and hubs**, **ICT/broadband linkages**, as well as setting up **business parks and innovation centres**, or developing some types of **tourism infrastructure**.

Table 4: Business-oriented infrastructure

Instruments	Country examples	Rationale	Potential difficulties
Business-oriented infrastructure (e.g. transport networks & hubs, ICT/broadband links, business parks, innovation centres)	BG, DE, EE, FR, HR, IT, LT, NL, UK	Infrastructure is often poorer in structurally weaker regions and can affect firms' investment decisions and competitiveness	Depends on large-scale public funding EU Competition law following Leipzig-Halle Planning & legal processes can be lengthy Construction work can be subject to delays EU Cohesion policy 2014-20 constrains funding, esp. in wealthier MS

6.2.3 *Packages of support for regional economic development*

Support under this category ranges from long-standing funding streams for structurally weaker macro-regions (as in ***Germany*** and ***Italy***), strategies for structurally weak regions, with (e.g. ***Norway, the Netherlands*** and ***Poland***) or without additional funding (e.g. ***Finland, Estonia*** and ***Poland***), and temporary measures aimed at alleviating the consequences of a local crisis (e.g. ***Czech Republic***, ***Finland***, ***France***, ***Slovenia***) (see Table 11).

Table 5: Packages of support for regional economic development

Instruments	Country examples	Rationale	Potential difficulties
Long-term funding streams for structurally weaker macro-regions	DE: Solidarity Pact for eastern *Lãnder* IT: Fund for Development & Cohesion	Can allow for a coherent, multi-faceted response to the development problems of particular regions	Depend on ad hoc political decisions to allocate mainstream public funding to specific places (or no additional funding) Design and implementation depend on effective coordination between different organisations and policy fields
Strategies for specific structurally weak regions with additional funding	NO: Action Zone for Finnmark & Northern Troms NL: Compensation Fund for the 3 northern provinces & northern Flevoland PL: Cohesion policy OP for the eastern macro-region		
Strategies for specific structurally weak regions but no dedicated funding	FI: East and North EE: Ida-Viru County PL: Domestic strategy for the eastern macro-region		
Packages for relatively small areas with specific difficulties (e.g. business aid, retraining, local infrastructure)	High unemployment areas (BG, SI) Border areas (HR, SI) Areas facing job losses (FI) Former military zones (CZ, FR) Development contracts (IT)		

6.2.4 *Support for bottom-up development*

A number of countries provide additional support for various aspects of bottom-up development (see Table 12), including for RTDI networks (e.g. in Germany, Denmark and Switzerland), clusters (e.g. in Germany, France and the Netherlands), support for bottom-up strategies or projects (e.g. in Austria, France, Norway and Portugal), and administrative capacity building (notably through Cohesion policy in countries where the lack of such capacity is seen as an obstacle to policy implementation and economic development)

Table 6: Support for bottom-up development

Instruments	Country examples	Rationale	Potential difficulties
RTDI networks of researchers and firms	CH, DE	RTDI is an important driver of productivity growth & is typically weaker in structurally weaker regions	Low demand in disadvantaged regions Is this efficient use of R&D spending? Inherent risk of R&D projects
Cluster initiatives	BE, DE, FR, NL	Businesses in disadvantaged regions often lack critical mass and connections	Difficult to identify genuine clusters in disadvantaged regions
Support for medium-sized towns (polycentric development)	BG, LT, PL, RO	Structurally weaker regions typically lack the social capital, networks & capacities that facilitate economic development; Mostly only limited funding is needed to act as a catalyst.	Building social capital takes long time & involves cultural & institutional change; Social capital also depends on economic development (e.g. people who gain new capacities may leave structurally weaker regions if there are few jobs).
Support for bottom-up strategies / projects	AT, CH, DE, FR, NO, PT		
Funding to set up/run local/regional agencies	AT, CH, UK		
Administrative capacity building	Cohesion policy programmes in selected MS	Development can be hindered by poor or inappropriate institutional frameworks and administrative capacity	Long-term change which depends on political & administrative commitment, willingness for cultural change, and possibly legal amendments

6.2.5 Support for quality of life and public services

Regional policy may also include instruments aimed specifically at enhancing quality of life and public infrastructure and services in structurally weaker areas (see Table 13). Most countries have some form of fiscal equalisation mechanism which redistributes resources towards fiscally weaker regional and local authorities, although these mechanisms are often not seen as part of regional policy. In addition, there are smaller-scale, more targeted interventions that aim to alleviate disadvantages linked to peripherality, deprivation or ethnicity (e.g. in ***Norway, Sweden, Finland*** and ***Estonia***).

Table 7: Support for quality of life and public services

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

6.3 Changes in regional policy instruments in 2014-15

6.3.1 Factors driving change in instruments

Changes in regional policy instruments in 2014-15 have been shaped by a number of factors (see Figure 21). First, new schemes are being adopted in the context of the 2014-20 **EU Regional Aid Guidelines**, resulting in significant changes in countries where the new regional aid maps alter area designation. Similarly, where **EU Cohesion policy** is a significant source of regional policy funding, are also influenced by the Thematic Objectives and Priority axes of the 2014-20 Operational Programmes. Second, the **financial crisis and economic downturn continues to generate fiscal pressures, as well as to stimulate the need for new kinds of intervention**, often targeted on areas experiencing rapid structural change. Last, some changes are driven by a **combination of EU and domestic factors**, such as efforts to increase the **effectiveness** of regional policy instruments, to **target funds** more appropriately, and to **reduce administrative red-tape**.

Figure 21: Key factors shaping regional policy instruments

6.3.2 Revised regional aid schemes for 2014-20

In 2014-15, countries have continued the work of **revising regional aid instruments in the context of the 2014-20 Regional Aid Guidelines** and General Block Exemption Regulation, leading to the submission of investment aid schemes and evaluation plans to the European Commission, the adoption of domestic legislation and guidelines, and the reform of domestic procedures for implementation.[18] **In some countries, this work is still ongoing**, especially where there have been delays in gaining Commission approval for Cohesion policy programmes and where these programmes are key financial resources for domestic regional policy instruments. In the majority of cases, **the 2014-20 schemes represent a continuation from the schemes operating in 2007-13**, with only limited changes or simply revisions to meet the requirements of new EU frameworks.

6.3.3 Changes in thematic or sectoral focus

The **thematic or sectoral focus of schemes has been revised**, either due to EU frameworks or for domestic reasons:

- In ***Germany***, the Regional Joint Task Coordination Framework has been revised for the 2014-20 period. In addition to EU-driven changes, domestic revisions have also been introduced,

[18] For further details on the new regional policy aid schemes for 2014-20, see the EoRPA Country reports and the EoRPA Aid instrument fiches.

including a new option to fund innovation clusters that build on smaller scale pilot initiatives but can now receive up to €5 million (or €7.5 million if they involve interregional cooperation or if focus mainly on SMEs) and may last for up to 10 years (compared to 3 years previously).

- In ***Norway***, the Social Security Concession is continuing but is subject to new restrictions in sectoral coverage, notably in relation to transport and energy.

- In ***Italy***, thematic coverage of Development Contracts has been extended to tourism and environmental protection.

- In ***France***, Regional Development Grant (PAT) support for R&D projects not targeted on specific areas has been discontinued.

6.3.4 Increased support for SMEs

Restrictions on investment aid for large firms in Article 107(3)(c) areas has led to **enhanced support for small and medium-sized firms:**

- In ***Spain***, higher aid ceilings are available to SMEs under the Regional Investment Grant; aid ceilings for SMEs were previously set at the same level as ceilings for large firms. Linked to this, minimum project size under the Regional Investment Grant has been reduced from €5 million to €1 million, with a view to easing access to funding.

- In ***France***, support under the Regional Development Grant (PAT) has been made more accessible for SMEs, specifically with a view to compensating for EU restrictions on large firm support. In addition, a new SME-specific version of the Reindustrialisation Aid scheme will allocate €20 million until the end of 2015, in the form of loans of up to €500,000.

- In ***Lithuania***, business aid in 2014-20 will be targeted primarily at SMEs, except for R&D aid.

6.3.5 New responses to economic problems

New instruments have been introduced in the Netherlands and Belgium, which have seen the **rapid emergence of serious economic problems in particular locations**, caused by structural shifts or the closure of firms that were major employers.

- In the ***Netherlands***, a series of measures has been introduced to assist regions facing specific structural challenges (Groningen, West Brabant and Zeeland, Twente). An action plan for Groningen (RIG 2014) aims to mobilise support for the chemical sector and strengthen links between SMEs and knowledge institutes. The Plan has a budget of €20 million of national funding, which will be matched by the province.

- In ***Belgium***, investment aid and tax incentives have been available since January 2014 in the Stimulated Urban Economy Zone (ZEUS), which are part of the regional aid map area. The aim is to reduce unemployment, promote entrepreneurship and improve the socio-economic environment. Firms must employ at least 30 percent of their staff in the zone.

6.3.6 Efforts to increase policy effectiveness and reduce red-tape

Changes to instruments have also focused on implementation arrangements, with a view to **strengthening impact** or **easing the administrative burden** on beneficiaries.

- In ***Finland***, there is an increased focus is on proactive management, preparation and responsibility at the regional level, as well as an emphasis on projects that are assessed as riskier but likely to generate more impact.

- In the ***Netherlands***, there is a move towards strengthening regional input into the delivery of aid. In 2015, funding allocations for the SME Innovation Stimulus Top Sectors instrument were regionalised. Previously funding was allocated sectorally. Regions must now identify which instruments and budgets they intend to use.

- In ***Italy***, the administrative procedures for the Development Contracts instrument have been streamlined: the contracts must now be implemented within 48 months of the formal agreement. Moreover, the Central Guarantee fund for SMEs now accepts online applications.

6.4 Future-oriented reviews of regional policy instruments

The 2014-15 period has also seen the launch or continuation of potentially far-reaching reviews of regional policy instruments in ***France, Germany and Switzerland***.

- In ***Germany***, discussions are underway on the future of domestic regional policy from 2020, as well as the reform of federal-*Länder* fiscal relations. Agreement is expected on a new fiscal equalisation system (including any replacement to the current Solidarity Pact for the eastern *Länder* which ends in 2019) and on a new system of active regional policy, centred on the existing GRW, but possibly also involving a broader range of programmes oriented towards the constitutional goal of ensuring equivalent living conditions throughout Germany.

- In ***Switzerland***, policymakers have been preparing the objectives of the New Regional Policy for 2016-23. Although no fundamental changes are planned, there will be an increased emphasis on innovation and tourism in future.

- In ***France***, the Rural Renewal Zones scheme (ZRR), that provides tax relief to firms in low population density areas, is under review following criticism, including that spatial targeting should include a wealth criterion alongside population density. The scheme will be maintained in its current form in 2015 but with a reduction in social security exemptions for general interest organisations.

7. THE INSTITUTIONAL FRAMEWORKS OF REGIONAL POLICY

KEY FINDINGS

The institutional frameworks of regional policy within an individual country depend on broader governmental structures and the allocation of responsibilities between administrative levels.

Countries can be divided into four groups:

- **federal countries**: responsibility is mainly regional but with important national coordination;
- **regionalised countries**: responsibility is shared between national and regional levels;
- **decentralised countries**: policy is mainly national but with significant regional coordination;
- **unitary countries**: policy is essentially national with no significant subnational component.

Changes in 2014-15 have mainly involved **reforms to institutional frameworks** and the **reallocation of responsibilities between different administrative levels**.

Reforms to institutional frameworks have been pursued by integrating and rationalising structures, and also by increasing capacities and coordinating efforts.

Changes have also taken place in the reorganisation of responsibilities between different administrative levels, including in relation to regional policy. This has taken place in the context of local or regional governmental reforms, and has in some instances had significant implications for the number and responsibilities of regional entities.

7.1 Introduction

The institutional frameworks of regional policy depend on broader governmental structures, as well as on domestic decisions on the division of powers between the various tiers of the public administration. This chapter begins by setting out a typology of the institutions through which regional policy is governed in federal, regionalised, decentralised, and unitary countries (Section 7.2).

The following section discusses the key changes that have taken place in the institutional set-ups of regional policy in 2014-15, focusing particularly on those countries which have introduced institutional reforms or have reallocated responsibilities between administrative levels (Section 7.3). These shifts have typically been prompted by changes in government and/or budgetary constraints, although also by pressure to increase the effectiveness of regional policy interventions. Nevertheless, the institutional arrangements of regional policy have remained relatively stable in a number of countries in 2014-15.

7.2 Typology of the institutions of regional policy

7.2.1 Regional policy in federal countries

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

Table 8: Regional policy system in federal countries

Country	National regional policy tasks	Sub-national regional policy tasks
AT	Federal Chancellery and ÖROK (Austrian Conference on Spatial Planning) have coordinating roles.	9 self-governing states - *Länder* (NUTS 2) - lead on decision-making, implementation of own programmes.
BE	No national tasks; enhancing collaboration between federal level and regions.	3 self-governing territorial Regions and 3 language-based Communities responsible for economic development.
CH	State Secretariat for Economic Affairs (SECO) sets strategic direction, co-finances and provides wider support.	26 self-governing cantons (NUTS 3) cantons define how objectives are achieved, including project selection.
DE	National coordination provided through Federal Ministry for Economic Affairs and Energy under the Regional Joint Task.	16 self-governing states - *Länder* (NUTS 1) - responsible for own economic development programmes.

- In ***Austria*****,** responsibility for many policies in support of regional economic development lies with *Land*-level authorities, including *Land* government departments for economic development and *Land* economic development agencies. At national level, the Federal Chancellery and the Austrian Conference on Regional Planning (ÖROK) have coordinating functions.

- In ***Germany***, individual *Land* governments have primary responsibility for designing and implementing regional policy, although federal authorities (notably the Federal Ministry for Economic Affairs and Energy) play important coordinating and funding roles, particularly in the context of the domestic Regional Joint Task (GRW) but also to an extent in Cohesion policy.

- In ***Switzerland***, regional policy is mainly a residual competence of the federal State, and the cantons are in charge of most tasks related to economic development. Under the New Regional Policy (NRP), the federal body (SECO) provides national co-funding and wider support, while the cantons are the central contact points of the federal government, and ensure cooperation with the sub-cantonal level.

7.2.2 *Regional policy in regionalised countries*

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

Table 9: Regional policy systems in regionalised countries

Country	National regional policy tasks	Sub-national regional policy tasks
ES	Ministry of Finance and Public Administration responsible for management and coordination.	17 directly-elected autonomous communities, 2 autonomous city regions implement according to strategies and plans.
IT	Council of Ministers and Agency for Territorial Cohesion coordinate and implement sectoral programmes.	20 regions with directly elected councils design and implement regional programmes.
UK (Scotland, Wales, Northern Ireland)	Scottish Government, Welsh Government and Northern Ireland Executive set development strategies.	3 directly-elected regions (Scotland, Wales, Northern Ireland) implement own development strategies.

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

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

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

7.2.3 *Regional policy in decentralised countries*

In **decentralised countries**, sub-national entities (at local and/or regional level) develop and, especially, implement regional policy initiatives but there is a stronger role for the national level. There is a degree of regional decentralisation, with elected parliaments. The regional level is largely funded by financial transfers, as regional authorities typically have only limited rights to levy taxes.

Table 10: Regional policy systems in decentralised countries

Country	National regional policy tasks	Sub-national regional policy tasks
CZ	Ministry for Regional Development sets strategy, manages funding and coordinates.	13 directly-elected regions and Prague (NUTS 3) develop own strategies.
DK	Danish Business Authority regulates, provides oversight and facilitates strategic linking of regional and national initiatives.	5 directly-elected regional councils, 6 regional growth fora (partnership bodies) develop strategies and implement.
FI	Ministry of Employment and the Economy sets national priorities, coordinates, monitors and evaluates programmes.	18 regional councils (and Åland) elected by municipal councils draft strategic programmes. 15 regional state bodies (ELY-centres) involved in implementation (four managing Structural Funds).
FR	CGET (ex-DATAR) is the key agency for coordination and has also monitoring responsibilities.	26 directly-elected regions (reduced to 17 in 2016), increasingly involved in strategic leadership regarding economic policies.
GR	Ministry for Economy, Infrastructure, Shipping and Tourism coordinates policy.	13 directly-elected regions prepare and implement regional strategies.
HR	Ministry for Regional Development and EU Funds has key responsibility for implementation; Agency for Regional Development is involved in planning, implementing and evaluating measures.	20 directly-elected counties and Zagreb city (NUTS 3) and regional development agencies identify regional strategies and instruments, while partnership councils (NUTS 2) coordinate them.
NL	Ministry of Economic Affairs provides national coordination and oversight.	12 directly-elected provinces responsible for most aspects of regional policy.
NO	Ministry of Local Government and Modernisation sets “task letters” to counties and agencies.	Regional offices of national agencies implement policies, with input from 19 directly-elected counties (NUTS 3).
PL	Ministry of Infrastructure & Development responsible for supervision and coordination.	16 directly-elected regions develop strategies and manage EU regional OPs.
SK	Ministry of Transport, Construction and Regional Development sets and implements strategy. Government Office responsible for Cohesion policy.	8 directly-elected regions have own strategies, but lack own resources.
SE	Ministry of Enterprise and Innovation provides overall coordination, while the Agency for Economic and Regional Growth has key implementation role.	21 counties. Sub-national implementation through directly-elected Regional Assemblies, Municipal Cooperation Bodies or County Administrative Boards.

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

- In ***France***, decentralisation is continuing with substantial institutional changes. The national level retains a coordinating role and is the main interface with the European Commission. However, the regions, whose numbers will be reduced from 26 to 17 in 2016, play an increasingly important role in the strategic leadership of economic development policies.

- In the ***Netherlands***, economic development policy has been gradually decentralised, with the provinces taking on more tasks, while the Ministry for Economic Affairs aims to strengthen cooperation and establish partnerships. Regional Ambassadors are in place to link central government and the regions.

- In ***Norway***, regional development policy-making is the function of central government, and is led by the Department for Regional Development in the Ministry of Local Government and Modernisation. Policies are implemented principally by national agencies at county level (Innovation Norway, SIVA, and the Research Council of Norway), together with county and/or municipal authorities.

- In ***Poland***, the Ministry of Infrastructure and Development has a key role in supervising and coordinating regional interventions. Within the centrally coordinated framework, there is an ongoing process of decentralisation of policy implementation responsibilities to the regional level, largely in the context of Cohesion policy funding.

- In ***Sweden*****,** the Ministry of Enterprise and Innovation has overall responsibility for coordination, while the national agency for economic and regional growth (*Tillväxtverket*) is responsible for implementation. In the regions (and varying by region), responsibilities are carried out by either (i) directly-elected regional assemblies, (ii) municipal cooperation bodies, or (iii) the county administrative boards, with future regional reform giving priority to directly-elected regions.

7.2.4 Regional policy in unitary countries

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

This group includes those where the **approach reflects the small size of the country** (e.g. ***Cyprus, Malta*** and ***Luxembourg***); where there is **traditionally centralised delivery of policy** (e.g. ***Greece, Portugal, Slovenia, Latvia, Bulgaria*** and ***Romania***); and those where **municipalities are involved in the implementation alongside central government**, as is the case in the ***United Kingdom (England)***, where regional policy is led by central government, but 39 Local Enterprise Partnerships (of local authority leaders and businesses) negotiate local ‘Growth Deals’ with the national level. Municipalities can also contribute to policy design and implementation in conjunction with regional offices of the central State (e.g. ***Estonia, Hungary***).

Table 11: Regional policy in unitary countries

Country	National regional policy tasks	Sub-national regional policy tasks
BG	Ministry of Regional Development and Public Works has main responsibility. Regional Policy Council coordinates with sub-national authorities.	Six planning regions where regional (NUTS 2) and district (NUTS 3) development councils negotiate and coordinate.
CY	DG for European Programmes, Coordination and Development is key national entity. Ministry of Energy, Commerce, Industry and Tourism, Ministry of Interior, and Cyprus Tourism Organisation also involved.	Six districts with deconcentrated State bodies coordinate activities.
EE	Ministry of Interior is responsible for designing policy.	Deconcentrated State bodies in 15 counties adopt development plans.
HU	Ministry for the National Economy has main responsibility for regional policy.	20 county governments (NUTS 3) coordinate and implement.
IE	Centralised economic development strategy-making, but responsibility for regional policy not allocated to any single department.	3 regional assemblies, no executive powers, but coordinate economic development.
LV	Ministry of Environmental Protection and Regional Development, and State Regional Development Agency implement.	Development councils in the five planning regions plan and coordinate.
LT	Ministry of the Interior coordinates and implements regional development. National Regional Development Council contributes as an advisory body.	10 counties where State's regional policy departments act as secretariats for Development Councils, which e.g. select projects.
LU	Regional policy managed by different DGs within the Ministry for Economic Affairs.	State-municipalities Conventions help in coordination.
MT	Ministry for European Affairs and the Implementation of the Electoral Manifesto has main responsibility; also Ministry for Gozo.	Special arrangements for Gozo (e.g. Gozo Regional Committee).
PT	Agency for Development and Cohesion responsible for regional policy and Inter-ministerial Committee of the PA for political coordination and decision-making. National agencies manage business aid schemes.	Deconcentrated State bodies in five regions and elected governments in two autonomous regions.with regional development responsibilities
RO	Ministry of Regional Development and Public Administration coordinates and implements regional development.	8 development regions: regional councils coordinate and regional development agencies implement.
SI	Ministry of the Economic Development and Technology designs, coordinates, implements.	Municipalities involved in implementation.
UK (England)	Department for Business, Innovation and Skills and Department for Communities and Local Government set strategy and coordinate.	Implementation role for municipalities through private sector-led local enterprise partnerships.

7.3 Changes in the institutions of regional policy in 2014-15

Institutional arrangements have remained relatively stable in a number of countries in 2014-15 (***Austria, Germany, Spain***), while elsewhere approaches have evolved significantly. The reorganisation of regional policy frameworks has taken place in the context of changing governments and budgetary constraints, which have prompted 'streamlining'. Efforts to improve regional policy effectiveness have also led to steps aimed at building capacities or improving coordination.

7.3.1 Reforming institutional frameworks

Reforms to institutional frameworks have been pursued in 2014-15 **by integrating and rationalising structures, but also by increasing capacities and coordinating efforts** (see Table 12). These objectives often overlap because, for instance, the rationalisation of institutions may have been carried in conjunction with endeavours to enhance policy coordination.

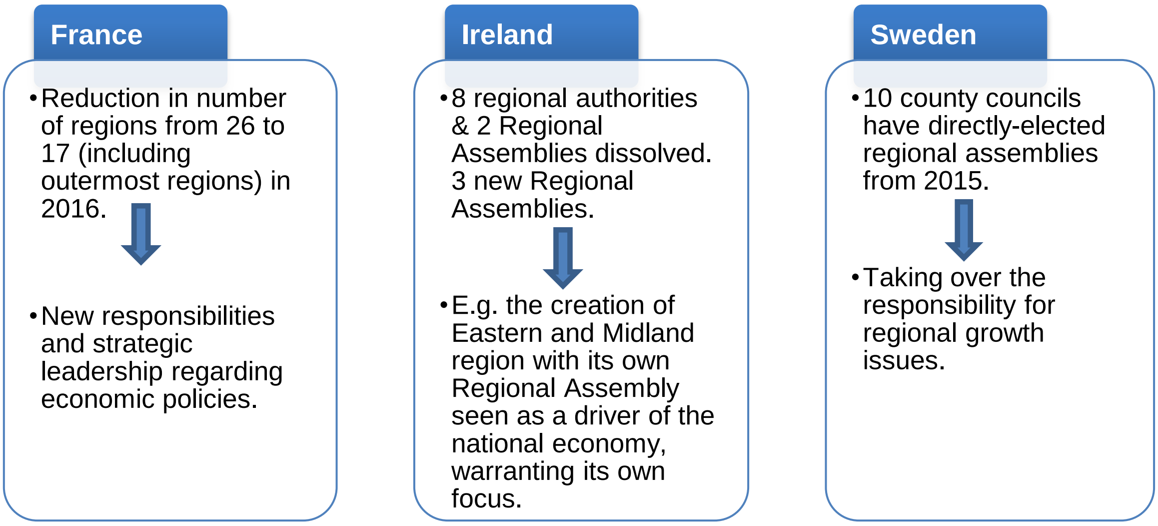
Table 12: Examples of key domestic institutional reforms in 2014-15

Country	Examples of key domestic institutional reforms in 2014-15	Rationalisation	Capacities	Coordination
BE	Flanders: New Ministry for Work, Economy, Innovation and Sport.			
	Flanders: Agency for Enterprise and Innovation (merger in 2016).			
	Wallonia: Agency for Enterprise and Innovation (merger).			
BG	Ministry of Regional Development and Public Works re-established.			
	New Regional Policy Council.			
	New Council for Regional Development and National Infrastructure.			
EE	Minister of Public Administration replaced Minister of the Interior.			
HR	New agency for SMEs, Innovation and Investment (merger).			
	New Council for Regional Development.			
IE	Eight regional authorities and two Regional Assemblies dissolved; three new Regional Assemblies established.			
IT	Reorganisation of Evaluation and Verification Units.			
	New committee (*Cabina di Regia).*			
	Stronger role President of the Council of Ministers.			
	New Agency for Territorial Cohesion.			
LV	New roles for Central Financing and Contracting Agency (CFCA).			
	New Development Finance Institution.			
NL	Ministry for Economic Affairs reduced its DGs from four to three.			
	Regional development merged with DG for Enterprise and Innovation.			
	Fifth regional development agency established (in Zuid Holland).			
PL	Underlined role for Ministry of Infrastructure and Development.			
PT	New Agency for Development and Cohesion.			
SI	New Government Office for Development & European Cohesion Policy.			
UK	Devolution of further tasks to Northern Ireland, Scotland and Wales e.g. new borrowing & tax-raising powers to Scotland in 2015-17. In England, moves to devolve powers to the largest cities; and a new Single Team for local growth and City Deals			

7.3.2 Reallocating responsibilities between administrative levels

Changes in 2014-15 have been substantial in terms of the reorganisation of responsibilities between the different administrative levels. These shifts have has taken place in the context of local or regional reforms, and have in some instances had significant implications for the number and responsibilities of the regions (see Figure 19). Key considerations underlying the reforms include the perceived need to clarify the roles of different bodies, to enhance efficiency in policy-making, to ensure transparency, and to address territorially imbalanced development patterns.

Figure 19: Implications of reforms for the number and responsibilities of regions



Substantial institutional changes with significant reallocation of responsibilities have taken place most notably in ***France, Ireland, Sweden*** and the ***United Kingdom***.

- In the ***United Kingdom***, measures to devolve further powers to Scotland are being discussed by the UK Parliament in 2015-16, notably in relation to the setting of income tax rates and bands, and extended powers over welfare (Employment Support and Universal Credit). This follows the 2012 Scotland Act, which devolved limited powers to raise or lower the income tax rate, other minor tax powers, and limited borrowing capacity. The devolution of further tasks is also being discussed in relation to Wales and Northern Ireland while, in England, there are moves towards the devolution of powers to the largest cities, building on the localism agenda and efforts to address territorially imbalanced development.

- In ***France***, three reforms during 2014-15 have aimed at simplifying and clarifying territorial institutions, resulting in: (i) a new legal status (*métropoles*) with extended powers for cities of 400,000 inhabitants or more, and a special status for Paris, Marseille and Lyon; (ii) changes to multi-level governance with local agreements encouraged between Regions, *Départements*, municipalities and their groupings; (iii) a reduction in the number of Regions in 2016 (from 26 to 17 if the outermost regions are included), with the aim of boosting critical mass and strengthening leadership, including new responsibilities regarding economic policies at the expense of the *Départements*; and, (iv) the promotion of large local authorities.

- In ***Sweden***, more directly-elected regions are taking over responsibility for regional growth issues; from the start of 2015, 10 county councils have directly-elected regional assemblies.

Future changes include the dismantling of the municipal cooperation bodies and their replacement by so-called regional development councils (indirectly elected assemblies), which will take over responsibility for regional development in seven counties by 31 December 2018. In the remaining (four) counties, responsibility for regional development will continue to lie with the county administrative boards (the State's regional administration).

- In ***Ireland***, local and regional authorities underwent significant reform in 2014. The 114 local authorities were consolidated into 31 integrated local authorities, and the County Enterprise Boards were replaced with 31 Local Enterprise Offices, which are now the main point of access for firms to Enterprise Ireland. Local Community Development Committees have replaced the former County Development Boards and City Development, with the aim of facilitating devolved control over local-level development. Furthermore, in 2014 the eight regional authorities and the two Regional Assemblies were formally dissolved; on 1 January 2015, three new Regional Assemblies were established.

Decentralisation is also ongoing in a number of other countries. In some cases, the functions of the regions have been broadened only slightly (e.g. Regional Development Councils in ***Lithuania***), while in other countries changes are more considerable:

- In ***Poland***, there is an ongoing process of decentralisation of policy implementation responsibilities, albeit largely in the context of Cohesion policy. In 2014-20, a larger pool of Cohesion policy funds has been allocated to the regional level, so that regional governments now have more responsibility for decision-making and implementation.

- In the ***UK (England)***, important changes are underway, with moves towards the devolution of powers, particularly to the country's largest cities. The announced interventions include: (i) efforts to pool the resources of northern English cities (via the 'Northern Powerhouse'); (ii) new powers and responsibilities and a directly-elected Mayor for Greater Manchester; and (iii) a draft of the Cities and Local Government Devolution Act 2015 setting out more detail on the offer of more powers for those areas with a combined authority and directly-elected Mayor.

Plans for future reforms to local and regional administrative frameworks are under way in a number of other countries (***Bulgaria, Croatia, the Netherlands, Norway, Slovenia*** and ***Sweden***).

- In ***Bulgari*****a**, there are ongoing discussions on proposals to amend the Regional Development Act, with a view to strengthening the role and powers of Regional and District Development Councils in regional policy implementation.

- In the ***Netherlands***, the government envisages a division of the country into five regions with strictly limited powers, and municipalities with a minimum of 100,000 inhabitants. The role and shape of the provinces are also to be radically changed. Currently, the focus is on restructuring from the bottom up, both in terms of establishing larger municipalities and of promoting cooperation between the provinces.

- In ***Slovenia***, a reform of local government was set out in the Government's decision of September 2013 with the aim of reducing the number of municipalities. The reform is viewed as necessary largely because of the small size of many municipalities and their lack of capacities and resources, including those related to regional policy. Following some delays, guidelines for a strategy for local government reform was presented in March 2015.

- In ***Sweden***, the Government is set to initiate a regional reform to create a structure that is better equipped to cope with the tasks and challenges facing modern society. A decision on changes to the county borders is expected to be made by December 2017, with a view to establishing the new regions on 1 January 2019. The reform would also present an opportunity for any directly-elected region to take forward regional development in Sweden.

Elsewhere, the planned reallocation of tasks has not yet materialised. In ***Romania***, in particular, debates on regionalisation/decentralisation came to a standstill in early 2014, when the Constitutional Court ruled the government's proposals to be unconstitutional. A new legislative package and a constitutional amendment may emerge after the 2016 election but would require steps to ensure regional capacity building and to address corruption.

8. CONCLUSIONS AND ISSUES FOR DISCUSSION

The past five years have been a turbulent period for regional policies across Europe. In conditions of economic crisis and austerity in several countries, many aspects of economic policy have been re-assessed, among them the conceptual thinking underlying government intervention to promote regional and local development. There have been significant institutional and policy changes in some countries, involving new policy objectives, new instruments and reduced budgets.

The most recent changes during 2014-15 have been driven by the reform of EU policy frameworks, related to the bedding-in of the 2014-20 Regional aid guidelines and regional aid map, as well as the launch of Cohesion policy co-funded programmes and instruments (with both dimensions continuing to roll out across countries). Important domestic factors within individual countries have also shaped regional policy over the past year, whether the election of new governments and the discussion of new laws; pressures generated by fiscal constraints; or the emergence of new regional development challenges. This section summarises the key changes in regional policy in 2014-15, before outlining the likely evolution of policy in 2016, and setting out issues for discussion.

Key regional policy changes in 2014-15

Challenges to the idea of a trade-off between growth and inequality

A series of studies, including from the International Monetary Fund and the European Commission, have questioned the traditional view that there is a fundamental trade-off between the two policy goals of economic efficiency and social equality.

At national level, a cross-country comparison of European countries shows no evidence of a trade-off between prosperity and interpersonal equality, across various indicators of equality and groups of countries. Although data are less robust, there is similarly little evidence of a trade-off between national prosperity and regional equality.

Evidence of the importance of the regional dimension of inequality varies between countries and indicators – with regional disparities an important component of inequality in some countries.

Regional policy goals are incorporating a stronger thematic approach

The formal objectives of regional policy are mostly stable for periods of time because they are set in constitutional, legal or strategic documents. Following shifts in a number of countries in 2013-14 due to EU policy reforms, changes were limited in 2014-15, although the move towards a stronger focus on certain themes remains evident, partly due to the influence of Cohesion policy's Thematic Objectives in 2014-20, as well as due to concerns over high local/regional concentrations of unemployment in some countries.

Funding allocations are falling in poorer countries

Cohesion policy funding for many poorer Member States has fallen in 2014-20 (in constant prices and as a percentage of GDP) but allocations to wealthier countries are generally stable. Domestic fiscal constraints are leading to a sharper policy focus on national growth and macroeconomic stability.

There is no firm correlation between national prosperity and the level of regional State aid as a percentage of GDP in 2011-13, although aid levels are very low in some wealthier countries.

EU frameworks strongly influence the geography of regional policy

EU regional State aid control and Cohesion policy are key drivers of the geographical focus of regional policy in Europe, although country-specific factors also play a role. By designating regions for different categories of State aid under Article 107(3), the Regional aid guidelines constrain domestic decisions on the allocation of regional policy funding to different areas and the scope for countries to fund investment aid for large firms. Cohesion policy in turn shapes the regional allocation of funding, particularly through co-financing requirements and, depending on countries' own financial resources and choices, may limit scope to for countries to fund non-EU-co-funded regional policies.

Shifts in the geography of regional policy in 2014-15 relate mainly to the ongoing implementation of revisions to the regional aid map and Cohesion policy area eligibility for the 2014-20 period, although there have also been revisions of domestic maps in specific countries.

EU frameworks are also driving the revision of instruments

Regional policy in Europe includes a range of instruments, including: (i) support for business investment and job creation; (ii) investment in infrastructure that facilitates business attraction and expansion; (iii) packages of support to regions or smaller areas facing particular economic difficulties; (iv) support for bottom-up development and capacity-building; and (v) improvements to the quality of life and public services/infrastructure.

Countries have continued to reformulate their instruments in 2014-15 in the context of the implementation of the 2014-20 Regional Aid Guidelines and Cohesion policy – and these processes are continuing in many countries. The RAG/GBER limits on investment aid to large firms in Article 107 (3)(c) areas is leading to an enhanced explicit focus on SMEs, while the focus on Thematic Objectives in Cohesion policy is constraining funding for certain kinds of infrastructure but also open new possibilities, particularly in relation to low carbon, climate change and resource efficiency.

Key domestic influences on instruments are fiscal constraints and the emergence of new developmental challenges (e.g. areas seeing firm/industry closures).

Domestic reforms are reshaping institutional frameworks

The institutional frameworks of regional policy depend on broader governmental structures and the allocation of specific responsibilities between national, regional and local administrative levels. New entities have been set up in 2014-15, partly in response to the requirements of EU frameworks, but also driven by domestic political and administrative decisions. Countries are also reallocating tasks between national, regional and local levels, with consequences for regional policy.

Key ongoing issues – from both an EU and a domestic perspective – relate to pressures to increase regional policy effectiveness (often in the context of fiscal consolidation) and to reduce the administrative burden (particularly on beneficiaries). There are also further efforts to build administrative capacity in countries with identified weaknesses.

Looking to the future

The remainder of 2015 and 2016 will see further roll-out of EU frameworks for 2014-20. In EU regional aid policy, countries will continue to notify or inform the European Commission of aid schemes (and, where necessary, evaluation plans), and implement the schemes domestically. Under EU Cohesion policy, a minority of programmes still need Commission approval, but most managing authorities are in the process of launching and implementing calls and schemes, as well as establishing management & control systems.

Given the broader context of fiscal constraints, the emphasis on the effectiveness and efficiency of regional policy is likely to continue, both from an EU policy perspective and in individual countries. This will imply further efforts policy targeting and evaluation; to simplify systems and reduce administrative red-tape; and to enhance administrative capacity.

Discussions on the future of regional policy will continue in 2016. A limited number of countries are conducting domestic reviews of varying breadth, and EU-wide debates on the future of Cohesion policy after 2020 have already started.

In this context, key issues for discussion at the EoRPA meeting include:

- How is policy thinking evolving on the appropriate **balance between the goals of growth and equality**? What are the key arguments?
- How are countries dealing with constraints on regional policy **funding**? Is there a need to rethink instruments or goals?
- Are **domestic regional policy maps** needed (in addition to the EU regional aid map and the Cohesion policy categories of regions)?
- Are further efforts needed to improve the **targeting** of domestic regional policies or to improve the **efficiency of implementation**?
- What of the future – in which direction are **reviews of domestic regional policies** going?

ANNEX

Table A1: The percentage of the variation in national indicators of interpersonal inequality which is explained by variation in national GDP per capita (PPS), 2013, measured by the coefficient of determination (R-squared)

	Europe-30	EoRPA-12	EU15	EU13
Gini coefficient	15.8	55.5	7.8	32.1
Percentage of population at risk of poverty or social exclusion	37.1	61.6	19.8	68.5
Unemployment rate	20.1	67.2	26.9	2.4

Notes: (1) In all cases, the relationship between GDP capita and the inequality indicators is negative i.e. higher GDP per capita is associated with a lower Gini coefficient, poverty rate and unemployment rate. **(2)** Europe-30 is made up of the EU28 plus Norway and Switzerland. EoRPA-12 is made up of Austria, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Portugal, Sweden, Switzerland and the United Kingdom. EU15 is made up of Austria, Belgium, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Poland, Portugal, Spain, Sweden and the United Kingdom. The EU13 is made up of Bulgaria, Croatia, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovakia and Slovenia.
Source: EPRC calculations based on Eurostat data.

Table A2: National average and regional coefficient of variation (NUTS 2)

	GDP per capita (PPS) 2011		Unemployment rate 2014		Household disposable income per capita (PPS), 2012		Percentage of population at risk of poverty, 2013	
	National	Regional	National	Regional	National	Regional	National	Regional
BE	31200	0.324	8.5	0.559	17300	0.101	15.3	0.787
BG	11500	0.405	11.4	0.162	6600	0.145	21.0	0.336
CZ	21600	0.422	6.1	0.298	11100	0.141	8.6	0.451
DK	32700	0.181	6.6	0.063	14200	0.031	12.3	0.415
DE	31800	0.202	5	0.391	20100	0.088	15.6	0.216
EE	17800		7.4		8800		18.6	
IE	33900		11.3		14700		14.1	
GR	20100	0.187	26.5	0.082	12100	0.102	23.1	0.105
ES	24700	0.192	24.5	0.254	14300	0.175	20.4	0.402
FR	28200	0.183	10.3	0.294	17400	0.067	14.0	0.170
HR	15500		17.3				19.5	
IT	26800	0.243	12.7	0.438	16100	0.193	19.1	0.550
CY	24900		16.1				15.3	
LV	14700		10.8		7500		19.4	
LT	17000		10.7		10500		20.6	
LU	68600		6				15.9	
HU	17000	0.368	7.7	0.310	8900	0.110	14.3	0.312
MT	21900		5.9				15.7	
NL	35000	0.181	7.4	0.101	15900	0.074	10.3	0.179
AT	33200	0.182	5.6	0.426	20900	0.025	14.4	0.379
PL	16600	0.236	9	0.175	10600	0.107	17.3	0.168
PT	20300	0.216	14.1	0.127	12500	0.135	18.7	
RO	13300	0.560	6.8	0.348	6300	0.383	22.4	0.447
SI	21500		9.7		12200		14.5	
SK	18900	0.838	13.2	0.275	10700	0.456	12.8	0.256
FI	30400	0.208	8.7	0.132	16000	0.159	11.8	0.332
SE	33000	0.169	7.9	0.127	16800	0.093	14.8	0.194
UK	27600	0.384	6.1	0.262	17000	0.142	15.9	
NO	47300	0.155	3.5	0.129	18900	0.060	11.0	0.181
CH	41200			0.253	n/a		14.5	0.340

Source: EPRC calculations based on Eurostat data.

Notes: (1) Household disposable income data for 2011 in Portugal. **(2)** Poverty risk data are for 2012 in Austria, for 2011 in Belgium and France, and for 2010 in Germany and the Netherlands; these data are for NUTS 1 in Belgium, Greece, Hungary and Poland.

Table A3: The percentage of the variation in indicators of interregional inequality which is explained by variation in national GDP per capita (PPS), 2013, measured by the coefficient of determination (R-squared)

	Europe-30	EoRPA-12	EU15	EU13
Regional GDP per capita	31.0	19.5	1.1	2.5*
Regional household disposable income per capita	26.3	23.6	27.3	0.1*
Regional unemployment rates	0.3*	0.1*	2.1*	14.0*

Notes: (1) The relationship between GDP capita and the inequality indicators is negative except where marked by a star i.e. the relationship is positive in the case of the unemployment rate (for all country groups) and for the EU13 (for all indicators). **(2)** Countries are only included where there is sufficient data at NUTS 2 level i.e. Europe-30 is made up of Austria, Belgium, Bulgaria, the Czech Republic, Denmark, Finland, France, Germany, Greece, Hungary, Italy, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Spain, Sweden, the United Kingdom and (for the unemployment rate only) Switzerland. EoRPA-12 is made up of Austria, Finland, France, Germany, Italy, the Netherlands, Norway, Poland, Portugal, Sweden, the United Kingdom and (for the unemployment rate only) Switzerland. EU15 is made up of Austria, Belgium, Denmark, Finland, France, Germany, Greece, Italy, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. The EU13 is made up of Bulgaria, the Czech Republic, Hungary, Poland, Romania and Slovakia.
Source: EPRC calculations based on Eurostat data.

EoRPA RESEARCH

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

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- Department for Business, Innovation and Skills, London
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