

INVESTING FOR GROWTH

BUILDING INNOVATIVE REGIONS

**CONCLUSIONS OF THE MEETING OF THE
TERRITORIAL DEVELOPMENT POLICY COMMITTEE (TDPC)
AT MINISTERIAL LEVEL,
31 MARCH 2009**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

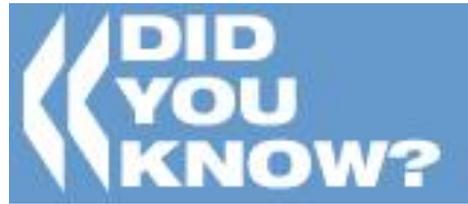
The OECD is a unique forum where the governments of 30 democracies work together to address the economic, social and environmental challenges of globalisation. The OECD is also at the forefront of efforts to understand and to help governments respond to new developments and concerns, such as corporate governance, the information economy and the challenges of an ageing population. The Organisation provides a setting where governments can compare policy experiences, seek answers to common problems, identify good practice and work to co-ordinate domestic and international policies.

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- *Did you know that more than 50% of innovative firms carry out no R&D? Lots of them innovate by adoption and absorption?*
- *Did you know that cities comprise just 2% of the world's surface, yet consume the majority – between 60 to 80% – of global energy and account for a roughly equal amount of global greenhouse emissions?*
- *Did you know that in OECD countries less than 10% of the rural workforce is employed in agriculture, producing less than 6% of gross value added in that region?*
- *Did you know that sub-national authorities are responsible for more than 60% of total public investment and 30% of public spending on average in OECD countries?*
- *Did you know that since 1950 approximately 400 major cities with over 100 000 residents have undergone population decreases of at least 10 percent?*
- *Did you know that differences in economic output, labour productivity and unemployment rates are more than two times higher within countries than among OECD countries?*
- *Did you know that every hour the world's urban population grows by roughly 8 000 people?*
- *Did you know that while leading OECD regions annually generate several hundred patents per million inhabitants, more than one-third of OECD regions produce less than 10 per year?*
- *Did you know that in more than one out of three OECD countries, the region with the highest rate of employment creation is a rural region?*
- *Did you know that the largest urban migration in human history is currently happening in China? Every year in China, 8.5 million peasants move into cities.*

Background

The need for regional policy to help address urgent economic, social and environmental challenges is offering renewed impetus for reform in a context of a major global downturn. The global economic crisis is affecting families and communities across the planet. With regions bearing the brunt of the crisis, affecting businesses, jobs and people generally, regional policies are very much part of the solution.

Ministers responsible for regional and territorial development from around the world gathered at the OECD on 31 March 2009 to discuss how countries can meet these challenges and how regional policy can support long-term growth.

This report contains the materials and highlights of the meeting, including the agenda, key policy issues, and main conclusions. It also provides details on the outcome of the OECD Regional Policy Forum “Global Crisis, Regional Responses”, held the day before. The Forum opened the floor to a diversity of key actors in the field of regional policy, including sub-national governments, business and financial sectors, education and research community, and NGOs.

*Further information about the TDPC Meeting at Ministerial Level and Regional Policy Forum can be found at the following website:
www.oecd.org/regional/min2009*

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AGENDA

CHAIR: MS. MARI KIVINIEMI
MINISTER OF PUBLIC ADMINISTRATION AND LOCAL GOVERNMENT, FINLAND

WELCOMING STATEMENTS

Mr. Aart de Geus

Deputy Secretary General, OECD

Ms. Mari Kiviniemi (Chair)

Minister of Public Administration and Local Government, Finland

SESSION I: REGIONS, NATIONAL OBJECTIVES AND GLOBAL CHALLENGES

Introductory remarks

- **Danuta Hübner**, Commissioner for Regional Policy, European Commission
- **Makoto Taketoshi**, Vice-Minister, Ministry of Land, Infrastructure and Transport, Japan
- **Pierre Dartout**, Interministerial Delegate, Spatial Planning, France
- **Anthony Albanese**, Minister for Infrastructure, Transport, Regional Development and Local Government, Australia

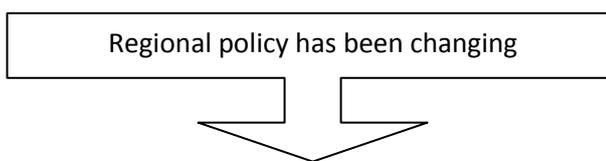
Global challenges (economic crisis, climate change, ageing, migration) require decisive policy action and regional policy can play an important role.

Regional policy has a key role to play in overcoming the crisis because:

- It helps prioritising investment made by fiscal policy.
- It accelerates the implementation of public investment.
- It mobilises local competitive advantages.
- It provides clear roadmaps based on agreed priorities.
- It brings differentiated tools to address the challenges of regions and communities in need.

What is the role of regional policies in dealing with the economic crisis?

What policy lessons can be drawn from past and current regional policies in promoting growth?



	Old paradigm	 New paradigm
Objectives	Compensating temporarily for location disadvantages of lagging regions	Tapping underutilised potential in all regions for enhancing regional competitiveness
Unit of intervention	Administrative units	Functional economic areas
Strategies	Sectoral approach	Integrated development projects
Tools	Subsidies and state aids	Mix of soft and hard capital (capital stock, labour market, business environment, social capital and networks)
Actors	Central government	Different levels of government; private sector actors, civil society

How can regional policy make a more significant contribution to addressing long-term global challenges, including global efforts to deal with climate change?

- Regional policy is key to meeting national targets in energy efficiency and greenhouse gas emission reductions and for the successful implementation of mitigation/adaptation actions as well as for the development of new forms of energy (including wind, solar, and others).
- The contribution to climate change and the impact of global warming are uneven across regions.
- Sub-national governments have primary authority over many environment-related sectors such as mass transportation and roads, building regulations, land use and spatial form, and water and waste services provision.
- Both urban and rural regions have the potential to create major employment opportunities in activities related with sustainable development (e.g., alternative energy, clean tech R&D, green building, etc.).

SESSION II: UNLOCKING REGIONAL GROWTH: INNOVATION AND PUBLIC GOODS

Introductory remarks:

- **Elena Salgado Méndez**, Minister of Public Administration, Spain
- **Claudio Scajola**, Minister of Economic Development, Italy
- **Ebrahim Rasool**, Adviser to the President, South Africa

Globalisation has increased pressure on regions to exploit their own distinct competitive advantages. To achieve this, they need well-functioning innovation systems and effective delivery of high-quality *public* goods and services that unlock each region's unique potential.

What is the policy experience in fostering regional innovation? What tools are the most effective?

- Economic recovery packages that target long-term growth should prioritise broad innovation by focusing investment on research, new technologies and skills.
- Research- and technology-driven innovation is highly concentrated. Many innovations that shape our daily lives were produced in a small number of leading regions such as Silicon Valley. But an innovation-led strategy and decisive policy action have helped other regions (for example, Helsinki, Catalonia, Piedmont and Ontario) to become high-technology hubs.
- Policy also needs to address regions that are not science and technology leaders but that can be innovative in other ways. In such regions, over 50% of innovative firms typically carry out no R&D: they need a different kind of innovation policy, one that emphasises absorption capacity and innovation by adoption.

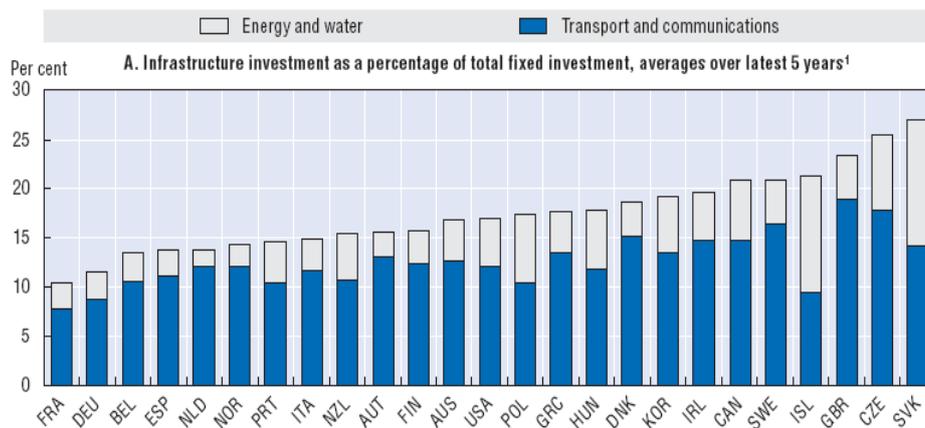
Patents per million inhabitants	As % of all regions	Of which, % of the regions that are rural regions	Average expenditure on R&D as % of GDP	Average employment in high technology sectors
Very few (<10)	33	46	0.6	23
Low	15	44	1.6	28
Medium	25	41	1.6	38
High (>250)	25	18	2.4	43

Source: OECD (2009), OECD Regional Database.

What public goods and services are essential to help regions grow? How can we ensure that the private sector plays a useful role in provision?

- Effective regional policy means identifying and prioritising those public goods and services that best unlock a region's best economic potential.
- The current crisis makes it even more crucial to target public investment where it will have an impact on long-term productivity growth.

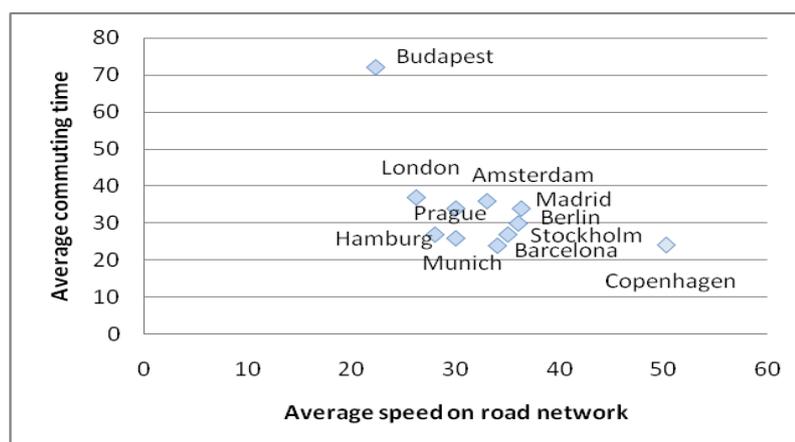
- Regional policy has often focused too much on physical infrastructure, particularly transport. But infrastructure is a necessary but not sufficient condition for growth. Its impact increases where investments in human capital and innovation are present, hence the need for integrated policies.
- The number of public private partnerships has risen. But just three countries – Korea, Spain and the UK – account for more than half of them. Other OECD countries have been slower to work with the private sector to provide goods and services.



Source: STAN (2009), Structural Analysis Database.

Does an attractive environment help growth? To what extent has the political support for green jobs stimulated economic growth?

- The regional environment and overall quality of life plays an important role in influencing economic performance. Public goods and services to improve the business environment and quality of life, and to reduce problems such as congestion, have a direct influence on firm creation and growth, on retention of skilled workers and on attraction of investment.
- Governments are focusing on how to make cities, regions, and rural countryside more attractive places to live, work and innovate as an integral part of economic development strategies.
- Public policies should be based on approaches to spatial planning that limit sprawl and enhance green space, wider use of sustainable building techniques, and efforts to harness better cultural and historical amenities.

Congestion in selected OECD metropolitan areas (2005)


Note: The figure indicates the average speed per hour (km/h) on the urban road network and the average commuting time in minutes.

Source: TNO (2007), Randstad Monitor 2007, Delft.

SESSION III: MOBILISING ACTORS AND CAPACITIES FOR REGIONAL DEVELOPMENT

Introductory remarks:

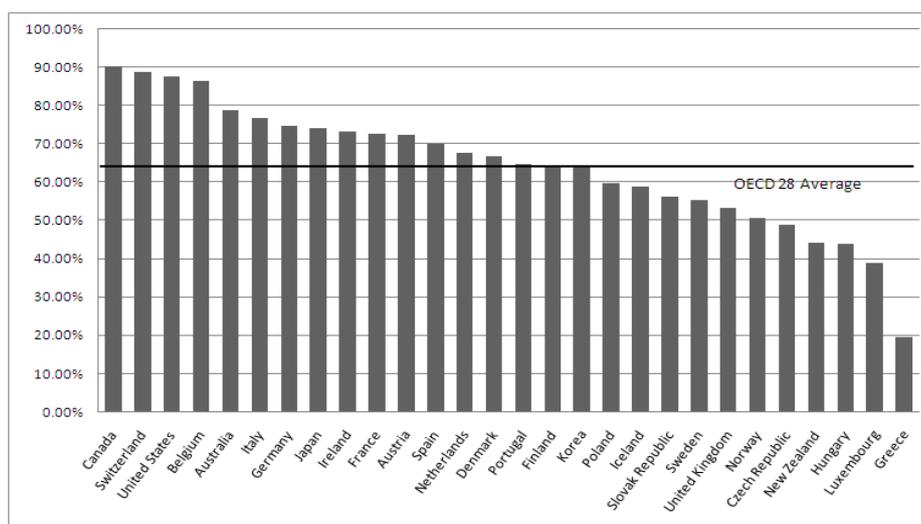
- **Iain Wright**, Parliamentary Under Secretary of State, United Kingdom
- **Geddel Vieira Lima**, Minister of National Integration, Brazil
- **Cyril Svoboda**, Minister for Regional Development, Czech Republic
- **Gustavo Merino**, Vice-Minister for Prospective, Planning and Evaluation, Mexico

Unlocking regional potential requires close collaboration among actors and capacity building at all levels. Effective leadership, especially at the regional level, is crucial for regional development.

What has been done to build local and regional capacities in order to ensure high quality policy delivery?

- Sub-national governments are responsible for almost 70% of total public investment.
- Boosting the capacity of regional actors is crucial, as they play a key role in the design of regional development strategies and prioritisation of public investment.
- Contracts between levels of government allow for differentiating regional strategies while keeping a coherent national policy. They are tools for dialogue, experimenting and clarifying responsibilities, and so for learning.
- Performance indicator systems promote mutual learning by sharing diagnosis and targets and provide incentives for effectiveness.

Share of sub-central governments in public investment (2007)



Note: This figure uses Gross Fixed Capital Formation as a measure of public investment.

Source: OECD National Accounts.

What has been done to facilitate policymaking across administrative boundaries (urban-rural linkages, cross border collaboration, etc.)?

What are the successful mechanisms to bring together governments and non governmental actors? Does it work differently in cities than in rural areas?

What has been done to facilitate horizontal co-operation within the central government? What policy lessons have been learnt?

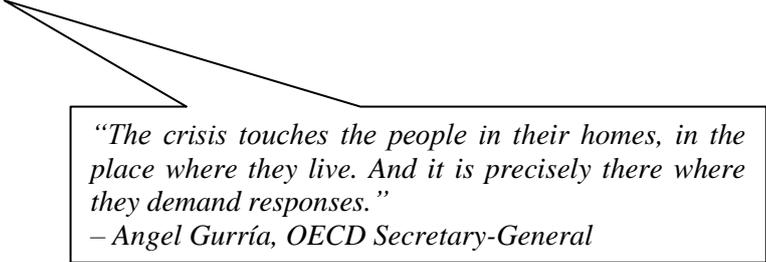
- The size of administrative units rarely corresponds to the size of economic areas.
- Current governance arrangements are not always optimal to fully exploit synergies through urban-rural linkages.
- To what extent could metropolitan governance benefit from amalgamation strategies? What other tools could help respond to urban challenges such as urban sprawl or environmental concerns?
- Regional innovation agencies could help overcome administrative boundaries and better incorporate private sector actors.
- Building cross-sectoral arrangements for coherent and effective regional policy remains a key challenge in most OECD countries.
- Horizontal approaches could allow for economies of scale, sharing of existing information and building knowledge for addressing long-term challenges.
- Existing arrangements range from bodies in charge of coordinating the activities of sectoral ministries (inter-ministerial committees and commissions), to full-fledged ministries with broad responsibilities (such as ministries for regional policy development)
- Examples of good practices include cross-sectoral approaches for solving rural weaknesses in public services delivery.

Closing Remarks: TDPC Chair, Mr. Mark Drabenstott; Chair of Ministerial, Ms. Mari Kiviniemi; OECD Secretary-General, Mr. Angel Gurría

KEY POLICY ISSUES

New challenges...

Globalisation confronts regions, whether urban or rural, with new opportunities and threats. Regional policy is increasingly tested on its capacity to target regional competitive advantages and fuel growth. Regional policy is also seen as an instrument to implement decentralisation and capacity building efforts. Finally, in the context of the economic crisis, regional policy is increasingly expected to maximise the long-term impact of counter-cyclical investments by targeting public investment. But in order to play such a role, regional policy has been required to change.



“The crisis touches the people in their homes, in the place where they live. And it is precisely there where they demand responses.”
– Angel Gurría, OECD Secretary-General

... combined with the understanding of past failures...

There is shared understanding among OECD countries that traditional regional policy produced disappointing results. Centrally managed redistribution of subsidies scattered across a large number of lagging regions was too diluted to sustain economic takeoff and often led to a culture of dependency which stifled entrepreneurship and distorted markets. More selective assistance also tended to cause rent-seeking behaviour without necessarily yielding predicted returns.

... have led to a renewal of regional policy.

A key rationale for a renewed regional policy is that simple concentration of resources in a place does not necessarily translate into economies of agglomeration. These are conditioned on the existence of a pooled labour market, backward and forward linkages among firms, and knowledge spillovers. The key appears to be how assets are used, how different stakeholders interact and how synergies are exploited in different types of regions. The market does not always appear to achieve this alone.

Countries are moving forward with the implementation of a new paradigm of regional policy...

Over the past few years, OECD countries have promoted a new paradigm of regional policy that aims at helping each region, whether wealthy or not, to maximise its own comparative advantages in a positive sum game that contributes to national objectives (Table 1). Regional policy has therefore been evolving from short-term subsidies into a much broader family of long-term development policies designed to enhance regional competitiveness.

Table 1. Old and new paradigms of regional policy

	Old paradigm	New paradigm
Objectives	Compensating temporarily for location disadvantages of lagging regions	Tapping under-utilised potential in all regions for enhancing regional competitiveness
Unit of intervention	Administrative units	Functional economic areas
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Actors	Central government	Different levels of government; private sector actors; civil society

“If every region unlocks its unique economic potential, there is the prospect that the whole will be bigger than the sum of the parts, thus maximizing national growth.”
 – Mark Drabenstott, Chairman of Territorial Development Policy Committee (TDPC)

... both in terms of rural...

Despite economic and demographic challenges, rural regions are not necessarily synonymous with decline. Distinctive advantages related with higher quality of life and the existence of various natural and cultural amenities have fostered a rural renaissance in some countries, as made visible in recent migration trends. Certain small and medium-sized settlements were able to seize niche markets as alternative sources of growth in the face of relative decline of agricultural employment. New rural policy aims at valorising unused resources and employment opportunities in rural economies while preserving the environment and adjusting to an ageing demographic structure.

“Evidence does not confirm that a concentration of people or economic activity necessarily leads to higher economic growth. Importantly, rural regions generate a lot of growth.”

– Danuta Hübner, Commissioner for Regional Policy (European Commission)

... and urban development,

The new paradigm also endorses a more pragmatic approach to urban development. While cities often serve as key engines of national growth, paradoxically some of them perform below national average in almost all socioeconomic indicators. Ensuring a clean and attractive urban environment is increasingly recognised as an integral aspect of the creation of dynamic cities rather than a mere offsetting of their undesired consequences. Urban policy is therefore increasingly concerned with addressing the negative externalities of urbanisation and maximising economies of agglomeration by providing collective goods.

... with an increasing need to facilitate rural-urban linkages.

There is a growing recognition that rural and urban areas are more strongly interlinked than has been thought in the past. Rural areas in close proximity to urban areas provide a flow of environmental and recreational services to urban areas. In some countries, virtually the entire rural territory is within easy reach of urban residents who commute to work on a daily basis. Renewable energy and regional food systems are two prime examples where urban-rural linkages will be strongly expressed and given more focus in the period ahead. Because of such economic connections, regional development strategies need to take into account the cascading effects of policy decisions that link rural and urban regions, including policies related with human capital development.

Progress has been achieved in terms of the reorientation of policy focus,

Regional policy is going through a complex process of transformation towards more selective public investment, targeting regional comparative advantages. Over the past decade, many countries have created or reformed regional development programmes, orienting them towards competitiveness and growth objectives. In many instances, partial progress has been made by “proofing” the impact of sectoral policies on different types of regions and adapting the policy content to specific regional needs. New strategies for spatial planning have been adopted on the basis of a more regionalised approach.

“Japan made a drastic change to the national spatial planning system in 2005. Previously, national spatial planning had been the exclusive authority of the central government. Now, Regional Plans cover several prefectures, beyond administrative boundaries.”

– Makoto Taketoshi, Vice-Minister, Ministry of Land, Infrastructure, Transport and Tourism (Japan)

... with significant governance reforms.

A variety of governance reforms have supported the implementation of the shift. Horizontal collaboration mechanisms have ranged from the amalgamation of municipalities to voluntary intermunicipal co-operative arrangements at the sub-national level, and from informal consensus building to interministerial bodies and full-fledged ministries (or specialised units in ministries) at the central government level. In turn, vertical collaboration has made progress in the use of contracts across levels of government as tools to implement co-ordinated public investment strategies. Such reforms have offered valuable opportunities for dialogue, experimentation, and learning.

However, the implementation of the new paradigm needs to be pursued over time.

Regional policy reforms remain an ongoing agenda. In certain countries, traditional regional aid schemes and distortive sector-based policies have not disappeared completely, although a more selective regime has usually been adopted. In some cases, the new approach to regional policy has generated resistance, and the “political economy of reform” remains a critical issue to be addressed over time. In this context, two main directions of research are considered essential for further progress in regional policy: innovation and governance.

Regional policy can play a key role in adapting to globalisation...

Globalisation has increased the pressure on countries to move up the value chain and engage in a continuous process of innovation. Not only the creation but also the diffusion of knowledge determines innovation. The gap between knowledge generation (research and education institutions) and knowledge application (firms linked with their customers and contractors) can be bridged by a range of actors such as technology brokers, technology centres, business innovation centres, high-education institutions, innovation-financing actors, etc. The main role for governments is to create the conditions for such synergies to flourish. Some places seem to do it better than others. The regions that have succeeded have built regional innovation systems to capture positive externalities by improving the efficiency with which partners interact and share their knowledge.

“Canada’s Regional Development Agencies’ various approaches to innovation and commercialization support the priorities and objectives of the national science and technology strategy.”
 – Adam Ostry, Director-General, Policy and Strategic Initiatives Directorate, Policy and Communications Branch, Infrastructure Canada (Canada)

... through a strengthened “multi-level” approach to innovation policy...

In the context of strategies to promote growth through innovation in a broad sense, governments are increasingly focusing on the regional dimension of innovation.

- Regional innovation policy needs to respond to globalisation. Production systems have become broader and less hierarchical. This tends to strengthen the dependence of firms on the regional and local innovation environment, and creates an opportunity on which regions can build.
- But not all regions can be leading innovation hubs. Some regions (not only rural but also some industrial and urban regions) perform poorly because of institutional problems, notably a lack of critical mass or culture of networking that support innovation. A focus on regional innovation systems helps mobilise assets and actors even in less advanced regions.
- Innovation is being redefined at national level, and regional innovation is a new domain. Policy frameworks, governance arrangements and funding streams need to adapt. The national level should set a broad framework while the region takes advantage of local knowledge to better target policy action. A clear division of labour helps avoid duplication and improves outcomes.
- More work is needed to understand which instruments work and where. There is no single policy formula to promote innovation in all regions. The main funding streams tend to be associated with science and research budgets managed at central level. Other funding streams, often business support or cluster programmes, are more limited and not always linked to innovation objectives. Policy makers would benefit from a more systematic analysis of policy strategic and tools for different types of region.

... and a new look at cluster policy instruments.

Despite a certain level of “cluster fatigue”, policies using a cluster model have been revised and often provide a bridge between regional policy, science and technology policy, and/or industrial policy. Such instruments aim at improving firms’ absorption capacity, for example via business mentoring programmes, one-stop advice centres for firms, skills training programmes, and specialised network building support programmes. Other instruments can also help transfer technologies from a core sector to new applications, through which a region can avoid over-dependence on single industries and better use accumulated skills. The effectiveness of such policies in different types of regions and in a context of rapidly evolving economic environment needs to be further explored and understood.

Regional policy can help build a coherent and flexible governance framework.

The effectiveness of regional policy needs to be enhanced through multi-level governance arrangements, in which central and local governments develop strong co-operation tools, and in which regional governance is key. At the regional level, public, private and non profit actors have a critical role to play to develop a vision and strategy for the region’s best economic future. In a word, governance for regional development needs to extend across sectors, builds on urban and rural “lenses”, and provides a call for action to public, private and social actors. Such a framework includes:

- Creating a single “gate-keeper” for regional policy at the national level. The complexity associated with regional policy requires that the responsibility for defining strategic priorities, providing incentives for action, and enforcing the “rules of the game” lie in an identifiable authority with strong political endorsement and backed by sufficient resources.
- Using contractual approaches to set conditionalities. Regional development requires the combination of various sources of knowledge (national/sub-national, public/private). An effective use of knowledge in the policymaking process requires appropriate mechanisms for dialogue and co-ordination within and across levels of government as well as across public and private spheres.
- Ensuring a unified, co-financed, and multi-year funding for regional policy. Ideally, a single fund would help clarify spending and financial incentives. In the absence of a single fund, a unified presentation of funding should be encouraged. Co-financing helps enhance the commitment and accountability of policymakers. Multi-year budgeting reduces uncertainty in the planning process and ensures continuity.
- Strengthening a culture of learning by monitoring and evaluation. Monitoring and evaluation mechanisms need to be established to promote the visibility of accomplished progress, identify room for improvement, and trigger motivation for further improvement.

“We are establishing Regional Development Australia, a network of local advisory committees, with the aim of engaging communities and improving the delivery of government programmes.”

– Anthony Albanese, Minister for Infrastructure, Transport, Regional Development and Local Government (Australia)

... but constant efforts towards capacity building are needed.

Regional policy requires constant efforts to build capacities at all levels, particularly at the sub-national level if the country has a short history of decentralisation. Because successful regional development rests ultimately on the ability of regional leaders, capacity building at the regional level cannot be taken for granted in forging strong regional policy for the future. Sub-national capacity in a broad sense encompasses various skills that are not easy to measure, and central governments have tended to focus on monitoring sub-national public service delivery via performance indicator systems. Although performance indicator systems provide effective tools for increasing accountability, they offer only one among multiple sources of information that can be used to guide strategic decisions in regional policy. Further research needs to be conducted to support regional capacity building.

“In the UK, it’s been seen as essential to have regional capacity within national government; to build regional delivery capacity which has private sector and local government buy-in; and to have some mechanisms that enable these different parts of our system to work well together.”

– Iain Wright MP, Parliamentary Under-Secretary of State, Communities and Local Government (UK)

In the long run, regional policy is becoming a fundamental tool in addressing global challenges.

In the long run, regional policy is increasingly challenged to achieve broader national or even global objectives. In particular, regional policy is gaining a new role in addressing global challenges such as climate change. Many regions are already under the threat of flooding, coastal erosion and drought. In many countries, sub-national governments have primary authority over environment-related issues (including public transport, water and waste management, planning and land use). Equally important, climate change policies can provide economic opportunities for regions to strengthen their competitiveness, foster innovation and create jobs in the green economy. Regional policy can help resolve such complex challenges in a way that aligns multiple policies and builds richer knowledge networks.

“Regional policy is helping equip Brazil with a new sustainable development model.”

– Geddel Vieira Lima, Minister for National Integration (Brazil)

MAIN CONCLUSIONS

(Oral statements)

Chair's Summary

**Mari Kiviniemi, Minister of Public Administration and Local Government and
Chair of the 2009 Ministerial Meeting of the
OECD Territorial Development Policy Committee**

Finland has had the great privilege of chairing the meeting of the TDPC at Ministerial level, "Investing for Growth: Building Innovative Regions". This was preceded by the Regional Policy Forum, "*Global Crisis, Regional Responses*", which benefited from contributions by trade unions, business and industry, representatives from cities and regions, civil society, and the education and research community.

Regional policy and the current crisis

Based on reports from the discussions at the Forum, Ministers debated how the crisis is affecting urban and rural regions, central and sub-national governments, the public and private sectors. The impact has been significant and widespread, causing substantial social and economic distress.

Ministers concurred that the crisis is hitting regional and local government budgets hard at a time of difficult access to credit. Noting the risk that some regional governments may have to reduce their public investments, running counter to national governments' efforts to stimulate the economy, Ministers agreed on the need to better co-ordinate stimulus packages across all levels of government and internationally.

Ministers agreed that regional policy plays a major role in maximising the positive impact of public investment. Public infrastructure investment is a key pillar of strategic responses to economic crisis in many countries. Ministers underlined that regional policy has an important role to play in ensuring that this public investment is transparent, well-targeted, and timely, and that it leads to sustainable long-term productivity growth. In a situation of economic crisis, some governments will invest heavily in hard infrastructure. In this context, Ministers debated evidence that suggests that the impact of infrastructure on productivity growth increases with an integrated approach that includes investment in skills and innovative capacity in a way that maximised local strengths and assets.

Ministers agreed that regional policy should provide a framework for evaluating the impact of economic development policies. It can help governments avoid the pitfalls of policies based on subsidies and state aids to favored sectors or firms, which introduce economy-wide distortions and exacerbate international trade frictions. The closing of markets would exacerbate the crisis and deepen the recession.

Ministers underlined that regional policy can also serve as a practical means to accelerate investment in a coherent and strategic manner. As governments try to stimulate economic activity through infrastructure development, pushing investment forward is difficult without clear roadmaps based on agreed priorities, needs assessment and stakeholder buy-in. This is essential to maximise the long-term impact of public investment.

Ministers agreed that regional development strategies often represent such an agreed and validated roadmap, and investment plans could be brought forward (front-loaded) to deal with the immediate needs of responding to the crisis. Ministers also agreed that the current crisis is an opportunity to combine emergency action with the important structural reforms needed to improve long-term growth and resilience in national, regional and local economies.

Regional policies, national objectives and global challenges

Ministers reaffirmed commitments made at the last TDPC High-Level Meeting in Martigny, Switzerland in 2003 where they agreed to shift from redistributive subsidies to investment in regional competitive advantages; from a narrowly sectoral approach to integrated cross-sectoral projects; from top-down, centralised policymaking to multi-level governance partnerships. Improved regional policies, Ministers concurred, will contribute to broader national and global objectives, including solutions to the economic crisis in the medium term and climate change and ageing in the long term. They warned participants to avoid the temptation to fight the economic crisis with economic nationalism, protectionism and a return of old subsidy-based regional policies, both in urban and rural development.

Discussing opportunities offered by the “green economy”, Ministers noted that investment in “green” cities can support economic recovery and meet longer-term environmental goals. While recognising that cities often serve as key engines of national growth, Ministers expressed concerns about rising urban unemployment and poverty, social distress, environmental degradation and, in some cases, crime. They agreed that urban policy should address the negative aspects of urbanisation and maximise economies of agglomeration by providing infrastructure and other public goods. This includes investment in human capital formation as a key tool to maximise innovation capacity in urban centres, as well as measures to foster integration and social inclusion.

Ministers also recognised that the crisis and the emerging need for action on climate change offer a unique window of opportunity to further modernise rural economies. They discussed possible approaches to accelerate long-term structural change and create a renewed set of rural jobs, especially in the ‘green’ sector. Ministers noted that distinctive rural advantages – higher quality of life and the existence of various natural and cultural amenities- have fostered a rural renaissance in some regions. Ministers discussed ways to boost employment in rural economies while preserving natural resources. They noted that major new investments in rural areas, including in alternative energy production and carbon sequestration, can both enhance energy security and address global concerns.

Recognising the increasing economic connections between cities and rural areas, Ministers called for regional strategies that take into account the cascading effects of policy decisions that link urban and rural regions, including issues related to education and skills upgrading, food and clean water supply, and migration.

Unlocking regional growth: making regions more innovative

Ministers concurred innovative regions strengthen long-term national competitiveness. Support for innovation should be a key pillar of economic recovery measures, generating sustainable growth by making economies more resilient to future economic shocks.

As the innovation process changes and becomes more complex, so do policy challenges. Ministers agreed that no single policy formula can promote innovation in all regions and that not all regions will become science and technology leaders. Some regions are best advised to invest in ways to absorb technology and in managerial and entrepreneurial skills. Local knowledge needs to be mobilised for regions to design their own innovation systems and use knowledge and technology more effectively.

Mobilising actors and capacities for regional development

Ministers stressed that unlocking regional potential requires close collaboration among actors across all levels of government, as well as the private sector and civil society. Ministers agreed with the need for effective leadership to build the regional and local capacities necessary to ensure high quality policy delivery.

Ministers debated the advantages of having a single “gate-keeper” for regional policy at the national level, with strong political endorsement and sufficient financial resources. They also discussed ways to ensure stable and transparent funding for regional policy, underlining the role of contracts as a tool for combining differentiated regional strategies with a coherent national policy. They also shared their experience with performance indicators to enhance transparency, accountability and capacity building at all levels of government. Finally, Ministers agreed on the need to create networks of local authorities to pool and leverage talent. They noted that this could help build capacity and boost innovation at the local level.

Regional policy objectives and the role of the OECD

Ministers agreed that in this moment of crisis and uncertainty, the need for a policy forum to identify and disseminate best practices, and to improve regional policy design and implementation is greater than ever. They invited TDPC to continue to identify, discuss, and disseminate a vision of regional development policy that is place-based, multi-level, and geared towards different types of regions.

Ministers indicated that future work should focus on mobilising local assets in order to promote long-term economic growth and address major national and global policy challenges. They called for further work on policy tools to enhance competitiveness and identify regional comparative advantage. Special emphasis should be given to how innovation can help regions move up the global value chain. Ministers noted that evidence-based analysis and high-quality statistical indicators are essential to support policy making.

Ministers also asked TDPC to address emerging regional issues such as finding ways to improve the effectiveness of public investment, confront climate change, move towards sustainable development, build skills, and improve the quality of basic public services in scarcely populated areas.

Ministers agreed that TDPC should continue to work on instruments for co-ordinating stakeholders at all levels of government. Ministers discussed the challenge of policy co-ordination across administrative boundaries, especially in the context of metropolitan areas. They asked for further work on policy tools to encourage collaboration between economic areas that straddle national borders. They encouraged TDPC to look into issues related to the optimal size and scope of a territory when it comes to the design of regional strategies and the efficient delivery of policy or of public services.

Last but not least, OECD Ministers agreed that the Committee should continue to work closely with a broad range of countries to discuss issues of common interest and identify and disseminate best practices. They warmly welcomed the attendance at the Ministerial of representatives from Brazil, Chile, Estonia, Indonesia, Israel, Morocco, Russia, Slovenia and South Africa, who greatly enriched the policy debate.

Box 1. Main messages underlined by Ministers

- National success is dependent on regional growth. Helping regions make the most of their assets should be the goal of the nation as a whole.
- Global solutions depend on regional action. Most challenges that preoccupy governments and citizens worldwide have a strong spatial dimension. These include enterprise failures and job losses, pressure on natural resources and climate change, ageing, poverty, inequality, exposure to competitiveness pressures and the need to move up the global value chain by becoming more innovative. The impact of these challenges and the capacity to deal with them vary from region to region.
- Regional policy has a major role to play in maximising the positive impact of public investment. Public infrastructure investment is a key pillar of strategic responses to economic crisis. Regional policy can and should ensure that this public investment is transparent, well-targeted, and timely, and that it leads to sustainable long-term productivity growth. Regional policy can identify those investments in public and goods and services that are most likely to pay the biggest dividend in regional economic growth: regional policy helps to ensure fiscal investment instead of just fiscal spending.
- The temptation to fight the economic crisis with economic nationalism, protectionism and a return of old regional policies based on subsidies to enterprises must be avoided. Such policies create distortions, lead to a culture of dependence and cause trade friction. Regions will enjoy strongest economic gains when they have unfettered access to global markets.
- Evidence suggests that the impact of infrastructure on productivity growth increases with an integrated approach that includes investment in skills and innovative capacity. Bundles of public investment should be designed to address the specific potential and the impediments to growth in each region. Public services can play an important role in improving competitiveness and boosting innovation capacity, but its delivery presents a major governance challenge, especially in the case of sparsely populated areas or in fragmented administrative units.
- The “green economy” presents enormous opportunities for both urban and rural areas. Public and private investment on renewable energy, energy efficient housing and buildings will create job opportunities and regional competitiveness. As regional governments have important prerogatives related to environmental policy, including land use regulations, different levels of government need to work together, and with the private sector, to seize these opportunities.
- The nature of innovation has been changing, with more emphasis being put on open innovation models, on process innovation and on absorption and adaptation capacity. As the innovation process becomes more complex, no single policy formula can promote innovation in all regions. Local knowledge needs to be mobilised for regions to design their own innovation systems and use knowledge and technology more effectively.
- New tools such as contracts can serve to combine differentiated regional strategies with a coherent national policy. Performance indicators are also important co-ordination tools between different levels of government that can serve to enhance transparency, accountability and capacity building at all levels of government.
- Policy co-ordination across administrative boundaries is a major challenge, especially in the context of metropolitan areas or of economic areas that straddle national borders. More knowledge of the appropriate size and scope of a territory when it comes to the design of regional strategies and the efficient delivery of policy or of public services, would help improve regional policy making.
- To meet new challenges, regional policies should continue to evolve. By promoting further identification and dissemination of best practices, the OECD can provide evidence-based recommendations for better regional policy design and implementation. These new challenges are also increasingly global in nature and as such, broadly shared by all countries. The TDPC should continue to promote the exchange of policy experiences, including with non-OECD countries.

Closing Remarks

Angel Gurría, OECD Secretary-General

A new role for regional policy: local responses for a global crisis

Dear Ministers, Ladies and Gentlemen, Distinguished Guests:

This has been a day of intense and stimulating debate. I'm grateful that you have joined us at this crucial moment for all our countries. We are facing the gravest and most global crisis of our lifetimes and we can only solve it if we work together.

Regional policy stands at the centre of any solution to this crisis. As you all know by personal experience, the crisis is already testing our regional policies. But at the same time, it is testing the capacity of regions to contribute with local solutions to address a major global problem.

The world economy is contracting, for the first time in 60 years. And this time there is no big country to bail us out. All the major economic engines are "in the repair shops". This time only enlightened co-operative policies can get us out of this mess. We need to integrate every possible policy tool to revitalise our economies. And regional policy is core to achieving this revival.

The Key Role of Regional Policy

This crisis is having a global impact, but it affects different regions in different ways. Some regions are suffering disproportionately from the effects of globalisation and from the impact of the current economic crisis.

As you have discussed here today, the crisis touches the people in their homes, in the place where they live. And it is precisely there where they demand responses. Regional policy is essential to empower these regions, to help them make the most of globalisation and to help them resist the crisis and recover faster.

We must be very careful and make sure that our policies, in these times of contraction, do not appeal to protectionism or to subsidies to offset regional handicaps. Protectionism is one of our greatest risks now. And we must say this loud and clear. Closed markets close factories!

The best way to help regions profit from global exchanges and turn this crisis into an opportunity is by boosting their innovation capacity. This will help them deal with crucial challenges like enterprise failures and job losses, pressure on natural resources and climate change, poverty, inequality and access to economic opportunity, exposure to competitiveness pressures and the need to move up the global value chain.

An effective regional policy promotes the best use of local knowledge, for the alignment of objectives, and this is essential to ensure the consistency of policy interventions. This is especially true for public investment. Regional policy can help focus this investment in a way that helps lagging regions reveal their comparative advantage and make the best of their resources.

It can also help us boost the capacity of our fiscal stimulus packages to address structural challenges like migration and climate change. It can help us set in motion a "green recovery". In many countries, the responsibility for policy areas related to the environment lies with sub-national authorities. These authorities are responsible for land use, building codes, public transport, or water management, to mention only a few.

Mayors and regional officials have been showing leadership by encouraging public transportation, implementing climate change action plans, and curbing air pollution to make cities more “liveable”, “walkable”, and “breathable”. They can go further in promoting cutting-edge “green” building technologies and clean-tech research and development (R&D).

The issue of how best to leverage public investment is also an essential one in this context. This goes to the heart of what governments can and should do to meet economic, social or environmental goals. For public investments to lead us out of the recession, they must be able to tap capacities at the sub-national level and be based on appropriate governance mechanisms for co-ordinating central and local actions.

This is why a coherent regional policy is so important: because it gives a strong tool for consistency in development strategies. Regional strategies that allow the participation of a broad spectrum of stakeholders are the best way to design and agree on a roadmap and set the priority investments for reaching its goals.

This is why these Ministerial meetings and Forums are crucial. Your effort is making a solid contribution.

The TDPC Ministerial: Collective Action for Better Regions

Since our last Ministerial, OECD’s work on regional policy has made important achievements. Together we have shown, for example, how to best integrate investment in hard and soft infrastructure to increase their respective regional impact, foster innovation and generate sustainable productivity gains. This included your work on National Territorial Reviews such as the ones on Canada, Japan and Poland.

We have helped some regions emerge from a culture of dependence by showing how they could best exploit their comparative advantages. You have led the way in showing policy makers how to move away from top-down approaches by using contractual arrangements and performance indicators, and this has improved policy co-ordination across levels of government.

This has had great policy impact. Some rural areas today are thriving, having diversified away from agriculture into services such as tourism and environmental-related industries. Others are working on the policy recommendations you have provided, including China, where rural development policies are especially relevant in a country with 700 million rural citizens.

Many cities are now better equipped to deal with the negative externalities of agglomeration, such as congestion, pollution and related social problems. This includes metropolitan areas that you have reviewed, such as Montreal, Milan and Stockholm.

Many regional governments are now investing heavily in the quality of life of their citizens and using their local knowledge to better connect with the private sector and academic and research institutions. Your regional innovation reviews of Mexican states, of Piedmont in Italy, of the North of England, all helped policy making in this field.

You have also provided a data base, “Regions at a Glance”, which is the best available tool to compare regional dynamics across countries.

And I am happy to confirm that we have no intention to rest on our laurels, nor should you. This Ministerial has given us a roadmap to shape regional policies for years to come. You have identified a number of important issues for further work by the OECD Territorial Development Policy Committee. For example the need to improve public service delivery, which is essential to foster innovation and deal with scarcely populated areas.

Another issue is water management, where multi-level governance mechanisms are needed to deal with fragmented administrative regulations and responsibilities. You also asked us to look more closely at the inter-connection between urban and rural areas and at how to best integrate this in regional development strategies.

And you have raised the need to improve policy co-ordination across different administrative boundaries, so regional development policies can approach functional areas across jurisdictions. This is particularly crucial in the case of trans-border regions, or in the case of Metropolitan areas such as the Metropolitan area of Mexico City, which strides across three different States and many municipalities.

Finally, you have asked us to help regions become more innovative. Not all regions will be able to become science and technology leaders. But, as the nature of innovation changes, with more emphasis being put on open innovation models, on process innovation, on innovation in the services sector, there will be new opportunities.

Dear Ministers, Ladies and Gentlemen:

I want to congratulate you for these achievements. We welcome your mandates and commit to deliver in their objectives.

The experiences, the ideas, the local solutions that we have heard here today will act as catalysts for our work during the coming years. I am sure that today's discussions will be a major contribution to the upcoming OECD annual Ministerial Council Meeting in June, where we will consider the responses to the crisis.

I hope that you will take some of these experiences and ideas back to your capitals and see to what extent they can be adapted and implemented at home. I hope that your vision has broadened and strengthened even more with the sum of all our perspectives.

I hope each one of you will walk out of this room today with the confidence that you are part of a global community working together.

Thank you very much.

Closing Remarks

**Mark Drabenstott, Chairman, Territorial Development Policy Committee (TDPC)
Director and Research Professor, RUPRI Center for Regional Competitiveness, University of
Missouri, United States**

This has been a great day for regional policy and for the Territorial Development Policy Committee (TDPC). I want to extend my deep thanks to Minister Kiviniemi for her excellent leadership of this meeting, and to all the ministers assembled here for what has been an extraordinarily rich discussion. I also want to thank the Secretariat for all the hard work behind the scenes to make this possible. I especially want to commend the Background Report and Policy Report. Both were extremely well done, and should be viewed as an essential part of the success of this Ministerial Meeting.

I can assure you the discussions today will be extremely useful as we chart the TDPC's future. Our high-level meeting in Martigny, Switzerland in 2003 was a seminal event in the development of the TDPC. I am confident that Paris 2009 will be just as important to the future life of this committee, if not more so.

What we have heard

There appears to be a strong consensus today that regional policy has much to contribute to our world, especially at this moment of economic crisis. Participants generally agree that economic growth is a bottom-up phenomenon. That is, getting conditions for growth right at the regional level offers the best possible opportunity for achieving the strongest growth at the national level. This worldview takes on added value during this period of turmoil. What is more, participants believe that regional policy provides the best hope for ensuring that the fiscal stimulus packages now being implemented in capitals around the world represent an investment in a brighter future, not just more government spending.

The global economic crisis was never far from our discussions today. Indeed, as the morning session clearly showed, the crisis is *the* backdrop for considering the future of regional policy. In an ironic way, the crisis has provided a potent lens for clarifying the role of regional policy in our world. Participants agree that regional policy has great power and unique capacity to supply answer to today's crisis. This power flows from the new structure of the global economy. To borrow an analogy we sometimes use in the TDPC, regions are now the athletes in the global economic Olympics. Thus, if we want a healthy global economy—which in this dark hour we want more than ever—we must tend to the vigor and competitive strength of each of our “athletes” as never before. Not only is this good policy, it also promotes the most sustainable long-term economic advantages.

A tantalising proposition

A tantalising proposition emerges from four key strands of today's discussion. That proposition can be stated as follows: *Regional policy has the ability to generate powerful synergies where we can create a positive sum game for public policy.* Put another way, regional policy has the potential to create a virtuous cycle—a very different outcome than the vicious cycle now at work in the global economy. The four strands represent four important dimensions in which regional policy can make significant contributions. Each dimension is important in its own right. Together, the four represent a real “home run,” to use an American metaphor in the best spirit of springtime!

Promoting world trade. Properly framed, regional policy both depends on and encourages gains from global trade. Thus, emphasising sound regional policy today has the salutary effect of encouraging trade and discouraging protectionism. We must be very clear, however, that growing trade flows from the *new* paradigm for regional policy, not the old. Traditional regional policy focuses on sectors and subsidies, which often restrict trade. Encouraging trade at this moment of global economic crisis is especially critical. In my 28-year career as an economist, I have never seen more protectionist threats around the world. The good news is that focusing on sound regional policy will help dissipate these threats.

Strengthening national economic growth. In this moment of economic crisis, the focus has shifted to the world of central banks and macro-economic fiscal stimulus. Yet regional policy is not an orphan in this policy world. If every region unlocks its unique economic potential, there is the prospect that the whole will be bigger than the sum of the parts, thus maximising national growth. The opposing view is that sound macro policy spurs national growth that trickles down to individual regions. Neither view has been proven conclusively. Still, the discussion today holds out the potential for a stronger national economy if regional policy is a central part of the policy mix.

Maximising returns from public investment. What is clear today is that huge fiscal stimulus programs are unfolding in our respective capitals. What is unclear is whether the programs represent spending or *investment*. Some policy officials view fiscal stimulus and regional policy as an either/or policy decision. Yet this appears to be a false dichotomy. If we can identify the investments in public goods necessary to exploit each region's long-term competitive advantage, then we provide the strongest possible economic growth while at the same time responding to the short-term economic crisis. To identify these investment priorities, however, we must implement far more broadly the new paradigm of regional policy. Too many remnants of the old paradigm persist. And too little capacity exists to implement fully the new paradigm. Such capacity—to identify regional competitive advantages and the corresponding investments in public goods and services critical to seizing them—takes on added value in the current period of crisis.

It may be tempting to ask whether fiscal stimulus is the province of Keynesian actors in central government or the summation of investment priorities across regions. In the best of policy worlds, fiscal stimulus should be *both*. In the current heat of the crisis, however, we must make that case with force and clarity. This Ministerial Meeting can be extremely constructive in seizing this policy synergy.

Fostering innovation. As ministers have peered into the future today, there may be no arena where our tantalising proposition will have more impact than innovation. The discussion here reveals a strong consensus that innovation is very much a regional phenomenon. As in the other three dimensions, there is the distinct possibility that regional policy can create a positive sum game. Namely, adding a regional innovation system to national policy on research and development seems likely to create a whole greater than the sum of the parts. The key is creating the right conditions in which innovation flourishes. This is decidedly not a matter of picking winners. In this sense, the old paradigm of regional policy—which used sectors as its specific instrument—is the enemy of sound regional innovation systems.

It is also clear that promoting regional innovation will also create the very process by which regions will stay competitive. That is, every region has distinct economic assets, but these can be exploited in more than one way. A vibrant regional innovation eco-system *multiplies* the range of possible combinations. It also equips regions with the best possible capacity to respond to changing market conditions.

What today implies for the TDPC's future

Today provides a strong reaffirmation of the Martigny vision, with an urgency and a potential for this committee that extends far beyond what could be seen even from the Swiss Alps. Together, we have reaffirmed that helping regions seize their competitive advantages remains a laudable objective for regional policy. Yet there is new urgency in this vision. Regional policy has a huge contribution to make in restoring the global economy and putting our collective financial house in order. Yet there is also strong agreement that regional policy can do much more. In addition to its contribution to economic growth and competitiveness, regional policy can also be a powerful framework for addressing innovation, climate change, and how we use natural resources in the most sustainable way.

In light of today's discussion, I see four implications for the TDPC programme of work in the future.

1. *Strategies for regional competitiveness.* Regional strategy for competitiveness has been our principal focus since Martigny, but today's discussion suggests we cannot neglect this core work going forward. It is the cornerstone for everything else we want to do. To build this strong foundation, we must continue to pay close attention to the twin drivers of these regional strategies. Diagnosing competitive advantage is critical to sound regional strategy, and work remains in claiming this analytical frontier. Such diagnosis represents the "science" of regional competitiveness. Building robust mechanisms for regional governance, which embody public-private partnerships, is critical to implementing, evaluating, and adjusting the strategy. This represents the "art" of regional competitiveness. Based on the committee's work and my own, it appears that the art trumps the science, and we must be very attentive to developing sound guidelines on governance while pointing out the best ways to enhance the capacity and social capital of regional actors. In short, the TDPC tool kit for regions has never been worth more. But we need to keep that tool kit state-of-the-art, and we also need to make sure it is distributed as widely as possible. The good news is that the tool kit appears to be robust across all types of regions.
2. *Regional innovation.* Like economic growth, innovation is happening at the regional level. The TDPC has a good start in understanding the regional innovation process, but it is only a start and a vast frontier remains. Based on our discussion today, claiming this frontier must be one of the TDPC priorities. A good starting point will be to understand better three critical questions:
 - What factors are critical to successful regional innovation systems? We know that many things combine—private R&D, higher education institutions, human capital, networks, financial capital, an ingrained culture of innovation, and the entrepreneurial climate, to name some of them. Yet we need to know much more about which ones matter most in which regions, and which combination of factors provides the most potent recipe for success.
 - Which innovation system works best in which regions? A working taxonomy of regional innovation systems is a critical starting point that is not yet complete. But we then need to analyze in which regions each system type can thrive.
 - How do we measure success in regional innovation? Everyone has agreed here today that regional innovation must be a much broader concept than just R&D. That is a healthy conclusion, but it makes our task of evaluation much more difficult. What are the dials on the dashboard that regional officials should concentrate their attention? Much work remains here.
3. *Public investment.* The discussion today, very much in the shadow of the global crisis, makes it clear that it is not for regional policy to create competitive regions. Nor is it enough to spur regional innovation. We must also make the final crucial step of prioritising investments in regional public goods and services. This final step is especially vital in this period of huge fiscal stimulus packages.

Happily, the TDPC programme of work already includes a focus on public investment. Based on today's discussion, however, I conclude we must redouble our effort here. Specifically, I see three priorities going forward:

- **The toolkit.** New tools are needed that extend our work on regional strategies to yield robust investment priorities. The key will be linking investments to the competitive advantages at the heart of the strategy.
- **Evaluation.** Measuring the impact of investments and helping regions adjust accordingly over time is imperative. The framework for tracking these outcomes is mostly new.

- **Crisis tracking.** An immediate priority must be developing tools to map the implementation of fiscal stimulus packages—with special attention to the regional impact of these. We have a narrow window of time to answer some critical questions. To what degree are regional factors influencing the stimulus packages, or not? What is being spent, by whom, and on what? What lessons can be learned about the best ways to target investment? While we may be too late to shape how governments respond to this economic crisis, we have a responsibility to, at a minimum, capture lessons that can inform responses in the future.
4. *Financial markets.* Much of our discussion today centered on public investments. This is natural given the fact that this is the business of government ministers—and because the economic crisis has now put the focus squarely on the public sector. Still, at several points ministers have reminded us that regional policy only succeeds when the private sector is fully engaged.

Here we face a huge issue that was discussed little today—the looming overhaul of the entire architecture of financial regulations worldwide. Some may regard this task as purely the province of our respective finance ministers. I would suggest, however, that this approach will yield the same outcome as ceding innovation to national R&D officials, or public investment to our emboldened Keynesian macroeconomic colleagues. Specifically, we have a huge stake in three key questions:

- How will financial regulatory reform change the spatial flows of capital?
- How important are regionally based financial institutions to the economic growth of their respective regions?
- How can we best foster a richer network of regional equity capital funds?

Conclusions

When the TDPC began, it was a frontier outpost of policy scouts who dared to believe that regional policy mattered to a world still focused mostly on macroeconomic policy. That tiny band of pioneers would scarcely believe how the world has changed were they all in Paris today. Regional policy is no longer a frontier outpost. It is at the very centre of how we respond to the greatest economic challenge the world has faced in seven decades. Framed by the “new paradigm,” regional policy offers at least four powerful contributions to the world of today. It can promote global commerce while thwarting protectionism. It can maximise national economic growth. It can help ensure that fiscal stimulus is an investment in a stronger future, not just spending. And it can foster the innovation that seems sure to drive economic gains far into the future. In touching all four of these policy dimensions, regional policy offers promise to a world now in crisis. Our challenge now is to seize this promise to the fullest.

OECD REGIONAL POLICY FORUM

GLOBAL CRISIS, REGIONAL RESPONSES

30 March 2009

Preceding the Ministerial, the Regional Policy Forum “Global Crisis, Regional Responses” opened the floor to a diversity of key actors in the field of regional policy, including sub-national governments, business and financial sectors, education and research community, and NGOs.

The Forum was chaired by Ms. Mari Kiviniemi, Chair of the Ministerial, Minister of Public Administration and Local Government, Finland. Minister Kiviniemi and Mr. Aart de Geus, Deputy Secretary General, OECD made introductory remarks. Mr. Axel Threlfall, Reuters, was facilitator. Mr. Mark Drabentstott, Chair of the Territorial Development Policy Committee (TDPC), concluded the meeting.

The Forum was organised into four roundtables, looking at different dimensions of regional policy. The issues discussed reflect important work undertaken by the OECD’s Territorial Development Policy Committee (TDPC). The OECD Public Governance and Territorial Development Directorate serves the TDPC.

The TDPC is a unique international forum for policy analysis and exchange of information on regional development, regional competitiveness, urban development, rural development, multi-level governance and regional statistics and indicators. The Committee is supported by three working parties:

The Urban Working Party addresses the specific concerns of cities and metropolitan regions and analyses key issues in urban policy.

The Rural Working Party looks at the challenges facing rural regions and rural communities and assesses rural development policies in OECD countries.

The Working Party on Territorial Indicators maintains a database of regional statistics (the OECD Regional Database) and develops indicators to assess the performance of regions across the OECD.

To find out more please visit the website at www.oecd.org/regional.

ROUNDTABLE 1

“GREENING” CITIES: AN OPTION FOR RECOVERY?

Cities are responsible for about two-thirds of total world CO₂ emissions and energy consumption and momentum has been building for cities to “go green”. Investment in renewable energy technologies and the “greening” of urban infrastructure could help us meet environmental goals while strengthening competitiveness and creating new, high-paying jobs. However, the economic crisis has affected public investment budgets and the capacity of city governments to act. In many urban areas, needed infrastructure extensions have been postponed and others have been eliminated altogether. Faced with this situation, authorities need to be creative to turn things around. But how?

Questions for discussion:

- How is the crisis affecting urban areas? Are cities able to cope with the increased strain on social services?
- What is the role of cities in achieving global environmental goals?
- What is the potential of the “green” economy? How would its growth affect employment and productivity growth?
- How can addressing environmental concerns help cities meet other policy challenges (social and/or economic)?
- How to best leverage public investment? How to promote public-private partnerships for sustainable urban development?

City views

- Wolfgang Schuster, Lord Mayor of Stuttgart, Germany
- Jerónimo Saavedra Acevedo, Mayor of Las Palmas, Spain
- Hannu Penttilä, Deputy Mayor of Helsinki, Finland

National perspectives

- Pal-Moon Kang, Assistant Minister for Territorial Policy, Ministry of Land, Transport and Maritime Affairs, Korea
- Toru Kurahashi, Research Advisor to the Ministry of Land, Infrastructure and Transport, Japan

The contribution of other stakeholders

- Simon Brooks, Vice-President, European Investment Bank

Wrap-up: Adam Ostry (Canada), Chair of the OECD Working Party on Urban Areas

KEY MESSAGES

There is large variety in the impact of the global economic crisis on urban economies. Several cities in Eastern Europe, US and Japan are severely hit, whereas other cities in Western Europe appear to be relatively unaffected. Much of the impact of the crisis is dependent on the economic sectors in which the city is specialised: construction and finance are strongly affected sectors, whereas high technology appears to resist better. Stuttgart has a strong specialisation in the automobile industry, but is doing relatively well thanks to specialisations in other high-tech sectors, strong research and high quality of life. Las Palmas is mainly specialised in tourism, but has so far not noticed the impacts of the crisis.

The crisis is adversely affecting cities' revenue capacity. Banks are less willing to lend for investment programmes, partly because of concern about city revenue and the private sector is retreating from public private partnerships (PPPs). This adversely affects the capacity of cities to confront the economic crisis.

Private sector involvement is decreasing, so new funding mechanisms are needed. The private sector is retreating from PPPs, for example in Poland, which makes it an unreliable funding source. As a result there is more demand for funding from other sources, such as international funding organisations. The European Investment Bank, a public sector bank owned by member countries mainly from EU countries, aims to lend an additional EUR 40-45 billion (a 30% increase) to confront the economic crisis. In Japan, several initiatives have been initiated making use of voluntary funding from individuals, such as the Green Electricity Charge System and the South Nagano "Ohisama" Fund. As interest rates of banks are very low, these funds give better rates of return, so provide incentives for individuals to invest in them. Some cities, such as Helsinki, continue to have revenues from public utilities.

National governments and cities are investing in programmes aimed at combining economic growth and environmental sustainability. Several fiscal stimulus packages in OECD countries have a green urban edge. Korea's New Deal programme for example focuses on green homes, public transit, high-speed railways and the cleaning up of the major rivers in Korea. Part of Japan's package is in a Greening Cities policy, which includes the building of "eco-model cities". The German "Social City" programme combines social and energy efficiency programmes for special areas in German cities.

The crisis can be an opportunity for investment in sustainable development. In several cities, such as Stuttgart, the real estate market remains relatively stable with high housing demand and the need for retrofitting buildings. These conditions provide an interesting opportunity for investments: construction costs (energy, steel etc) have gone down and interest rates on loans for investment are low, which could promise good return on investment when the crisis will be over.

Cities with a long tradition of environmental involvement will have advantages in using the crisis as an opportunity for greening their city. The fiscal response to the crisis asks for programmes that can be immediately implemented: 'shovel-ready' investments as they are called in Canada. Starting new programmes now, aimed at greening the economy, will take time and could be less appropriate for creating short term effects. Continuing and accelerating current urban renewal and sustainability projects would have more immediate impacts. This implies that cities with a tradition of environmental involvement, such as Stuttgart, have an advantage in using the crisis as an opportunity to green the urban economy.

There is a need to increase the evidence base on investment strategies to address the economic crisis. In order to know whether economic stimulus has been effectively connected to environmental sustainability, a thorough assessment of current strategies will be essential.

ROUNDTABLE 2
PREPARING FOR A NEW FUTURE:
BUILDING A DIVERSIFIED AND SUSTAINABLE RURAL ECONOMY

The current recession reinforces the importance of finding ways to further modernise rural economies. A more diversified economic base would increase the resilience of rural areas in time of crisis, whereas the current worldwide focus on responses to environmental challenges present a formidable opportunity for rural job creation. Policy makers need to think beyond the provision of short term relief, by preparing rural areas for a more sustainable recovery path. They should aim at accelerating long-term structural change, encouraging a new set of rural businesses, especially environment-related, to replace those lost during the recession. At a time of strained budgets, governments will need to be innovative, better leverage public investment, work more effectively with the private sector, and act to eliminate barriers to the growth of a diversified rural economy.

Questions for discussion:

- How has the crisis affected rural economies? Are existing safety nets able to cope or do they need to adapt? How are returned migrants being re-absorbed into the rural economy? What is happening with remittances and how are families coping?
- Is there a specific rural component in current relief packages? Have measures been designed with long-term structural impact in mind?
- How can public investment facilitate the emergence of a new rural economy? How to build effective partnerships with the private sector?
- What are the main areas of opportunity to create environment-related jobs?
- What are the main barriers to the emergence of a sustainable and diversified rural economy? What needs to be done to eliminate them?

Current rural conditions

- John Bryden, Visiting Professor, Rural Norway
- Andrew Copus, Senior Research Fellow, NordRegio, Sweden
- Christina Pfeiffer, Deputy Head of Division, Rural Development Division, Ministry of Agriculture, Environment and Rural Regions, Land of Schleswig-Holstein, Germany
- Flaminio da Deppo, President of the Mountain Community of Centro Cadore (Dolomites) and President of the Local Action Group (LAG) Alto Bellunese, Italy

Policy options for rural development

- Wade AuCoin, Atlantic Canada Opportunities Agency (ACOA), Canada
- Martin Glynn, Director, Rural Development Initiatives, UK
- Chuck Fluharty, Vice-President for Policy Programs, Rural Policy Research Institute (RUPRI), US

Wrap-up: Richard Wakeford (UK), Chair of the OECD Working Party on Rural Areas

KEY MESSAGES

Initially most rural areas did not experience significant effects from the recession. During 2008 recession effects were concentrated in finance and residential construction, which are not major sectors in rural regions. However, by early 2009 once commodity prices fell and sales of durable goods declined, especially motor vehicles, rural areas dependent on these sectors experienced significant drops in employment and income. Generally, it seems recession effects were first transmitted to those rural regions with the strongest connections to urban centers and those regions most integrated into global supply chains.

As the recession deepens rural areas will inevitably experience further declines in employment. Even the most weakly integrated regions depend on exports from the region and on the inflow of payments from national governments. In many cases places rely on one or two industries for the bulk of their economic activity and so these “single industry towns” are especially vulnerable to firm cutbacks or closure.

Local governments in rural areas face increasing demands for public services and falling revenues as unemployment grows, Just as in cities the recession has exacerbated the financial position of local government. But in rural areas the effects are often proportionately larger. Local governments typically have much narrower revenue bases and less flexibility in their patterns of expenditure. Moreover, much of the national government stimulus outlays miss rural locations. Understandably national governments are spending money where it can have the fastest impact and the largest multiplier effect, but this does present problems for smaller places.

Returning migrant workers are a significant problem in some rural regions. Many workers left rural regions to find better employment in cities during the growth stage of the business cycle. Their leaving resulted in less unemployment pressure in the local economy and a steady inflow of remittances. Now many of these workers have lost their jobs and returned home, causing a fall of remittance income and a surge in local unemployment at just the time local jobs are most scarce.

But it is not all bad in rural regions. In some countries there are effective mechanisms for transferring public support to local governments and effective assistance programs for unemployed workers. In addition many rural workers can stretch their support further because there are opportunities for self-supply that do not exist in an urban environment. Further, some countries have provided targeted stimulus funds for rural local governments and other countries are reinforcing existing policies that seek to stimulate entrepreneurship and support existing businesses.

And there are emerging trends that favour rural development. In the longer run rural areas have great opportunities in the production of renewable energy. Indirect benefits are also possible since sites where significant amounts of energy are produced also become attractive to manufacturing industries that use large amounts of power. Moreover, rural areas produce basic commodities for which there are floor levels of demand – people have to eat even if they have some discretion over what they eat. Finally, concerns with climate change and sustainability can lead to new investments in rural areas, which are often relatively cheap locations to meet emissions and carbon sequestration targets.

However, for rural areas to reach their full potential in contributing to national goals new investments will have to be undertaken. Some of these investments will be in basic infrastructure – transportation and national power grids. Others will be in innovative technologies and processes, such as, renewable energy and increased efficiency in manufacturing and natural resource industries. However, a crucial set of investments must be made in better adapting national policies to rural needs and capacities, and in improving collaborative arrangements among local governments in rural areas.

ROUNDTABLE 3
INVESTMENT-BASED STRATEGIES:
WHAT ROLE FOR CENTRAL AND SUB-NATIONAL AUTHORITIES?

Public investment is likely to play a large role in addressing the consequences of the current economic crisis. Sub-national governments have traditionally been responsible for 70% of public investment in OECD countries, but are facing increased budget strains. Fiscal revenues are falling, social expenditures rising, and funding costs have soared. In this context, there is a risk that public investment may be cut, which may affect long-term growth prospects. Addressing those challenges would require co-operation across levels of government, in order to design and implement effective investment-based strategies to face the crisis.

Questions for discussion:

- What has been the impact of the crisis on sub-national finances?
- How can central governments prevent a pro-cyclical reduction of public investment by sub-national governments? Should central governments provide guarantees to facilitate access to finance by sub-national authorities? How could moral hazard be prevented?
- How have national plans been articulated at the regional level? What has been the role of sub-national authorities in shaping stimulus package and prioritising public investment?
- How can existing regional strategies be effectively used to target and accelerate public investment?

What is the impact at the local and regional level?

- Dominique Hoorens, Head of Research Department, Dexia
- Brock Carlton, CEO of the Canadian Federation of Municipalities, Canada
- Xavier Gizard, Secretary General of CPMR, Secretary General of FOGAR

Strategic responses

- Katarina Mathernova, Deputy Director General of DG Regio, European Commission
- David Morrison, Executive Secretary, United Nations Capital Development Fund
- Mario Calderini, President of Finpiemonte, Italy
- Julio Cesar Carmo Bueno, Secretary of State for Economic Development, Rio de Janeiro State, Brazil
- Masami Amano, President of Mitsubishi Estate UK

Wrap-up: Hanna Jahns, Secretary of State for Regional Development, Poland

KEY MESSAGES

The impact of the crisis on sub-national governments is wide but very differentiated. The present crisis affects all regions, but its impacts are different according to the type of activity, revenue sources, and spending responsibilities of local and regional authorities. Besides, the impact might be felt more strongly in 2010-11 in some regions, as there is sometimes a lag between a variation in activity, and the impact on public revenues. The crisis has short term impacts on sub-national finances, as their revenues will fall (especially tax revenues), while their expenses will rise (especially for those sub-national governments responsible for welfare and social protection), thus creating or increasing the fiscal deficit. The crisis will also have long term impacts, either through an investment deficit, if sub-national governments cut their investments to balance their budgets, or through increased debt levels, if they decide to borrow to sustain investment. Besides, central governments reforms might affect fiscal relationships between levels of government, thus revenues and spending responsibilities.

Sub-national governments are key players in addressing the crisis. Sub-national governments represent 30% of public spending, 20% of public revenues, and are responsible for 60% of public investment in OECD countries. They therefore cannot be ignored in the design and implementation of national recovery and stimulus plans. But this new role requires complementing traditional fiscal approaches with new multilevel governance mechanisms, to implement a more territorially tailored regional development policy. Effective co-ordination needs improving information sharing. Associations of municipalities may thus play an important intermediation role in the necessary dialogue between levels of government.

Acting fast implies avoiding creating new projects from scratch. Considering the time necessary to implement the studies and procedures to launch new investment projects, it is more efficient to accelerate the roll-out of already agreed projects and in general, to speed-up payments down the chain, from higher to sub-national levels of government, and down to the final beneficiaries in the real economy (SMEs and private partners). This strategy is implemented by many countries, as well as by the European Commission

The present crisis can radically change the comparative advantages of regions, and represents a window of opportunity to implement structural reforms. Public authorities should therefore look at the crisis as a catalyst of an innovative approach to the way they manage regional development, despite (or even because of) their shrinking budgets. This means in particular, investing in innovation and human capital, which have the greatest positive impact in the long run, by allowing regions to be in a better position to profit from future recovery. Additionally, investments can be oriented towards sustainable development, as energy efficiency in housing and in the building sectors, and clean transportation. The crisis might also shed light on the shortcomings of the previous arrangements, thus creating support for changes in multi-level governance and fiscal relationships across levels of government.

ROUNDTABLE 4 BUILDING KNOWLEDGE FOR BETTER REGIONAL POLICY

Investment in public services and infrastructure need to be well targeted and based on regions' comparative advantage if they are to have maximum impact in terms of long-term productivity growth. Accurate and relevant information is needed for that purpose. The better we are able to collect, assess and share this information, the greater our analytical capacity to inform policy making.

Questions for discussion:

- How can regional policy make the best use of statistical information to target investment and create reliable benchmarks?
- How can data availability at regional level contribute to make regions more attractive for recovery plans and investment opportunities? And to help monitoring the implementation of public investments and evaluating their impacts?
- How can sound analysis to guide public choices be reconciled with the need for rapid action in the context of the current crisis?
- What is the role of statistical information in increasing awareness and support for public policies?
- How can information be collected and transformed into shared knowledge? What are the main challenges in transferring results into operational tools for policy makers?
- How can we best incorporate citizen preferences and local knowledge in policy making? What kind of measurement is needed?

Which information and for what?

- Rui Nuno Baleiras, Secretary of State for Regional Development, Portugal
- Charles Wessner, Director, Programme on Technology, Innovation and Entrepreneurship, The National Academy of Science, US

What do we learn from this information?

- Lucy De Groot, Executive Director, Improvement and Development Agency for Local Development, UK
- Enrico Giovannini, Chief Statistician, OECD
- Nadine Massard, President of EuroLIO-European Localised Innovation Observatory and Centre of Economic Researches of the University of Saint-Etienne, France

Wrap-up: Dev Virdee (UK), Chair of the OECD Working Party on Territorial Indicators

KEY MESSAGES

The focus on public investment in the context of the current crisis offers a unique opportunity to improve public services and infrastructure. This opportunity needs to be seized by regions, focusing public and private investment on their comparative advantages to maximise impact in terms of long-term productivity growth. But to seize this opportunity, accurate and relevant information is needed. The better we are able to collect, assess and share this information, the greater our analytical capacity to inform policy making.

To design effective regional policy, it is crucial to keep improving the knowledge of regions characteristics, resources and potential for growth

- Regional policies are information intense. We need to have a comprehensive coverage of different domains and their interactions across territories, over time and among different levels of government.
- This means improving our analysis of the factors of regional growth, of the different possible impacts of these factors on rural and urban regions, and of their role during times of recession and recovery.
- At the same time, there is a need of innovative tools to transform this information into knowledge about the potential roles of regions to contribute to national growth and well-being. This requires moving forward with new tools for analysis beyond regional indicators, and also engaging in using and promoting innovative tools for analysis and dissemination.

During times of economic crisis, the burden of recession affects regions and localities in different ways. On the other hand, the mobilisation of local assets can help restore and reshape national economies. We expect, and are already seeing, that countries will pay more attention to the patterns of performance across regions.

- It then becomes useful to survey how countries identify and analyse the different regional conditions and strengths. Which indicators/features of regional performance have been used to inform regional policy decisions. What international comparative data and analysis can be useful in the future.
- In this time of economic crisis, to gather the relevant information on how countries and regions define their strategies has become more challenging, since there is a general loss of trust in the ability of decision makers to know the relevant parameters.
- Statistical information can increase the awareness and the support for public policies, but policy makers should seek the involvement of beneficiaries since the initial phase of strategies definition.
- The positive role of citizen participation and local knowledge into public decisions are widely recognised. Nevertheless, to incorporate citizens preference in policy making and to handle participatory democracy are quite challenging tasks.
- The use of outcome measures and performance evaluation can help to increase the accountability of public policy and, at the same time, can make public policy more real for citizens.

Regional innovation and human capital are recognised as key factors to underpin development and lasting national strength

- The potential and diversity of each region need to be better understood to avoid the risk of unifying everything. Then the collaboration among different stakeholders need to be sustained by the right incentives also to enhance the capacity of local community to measure themselves.
- Future analysis should investigate the nature and degree of co-operation among regions and among different actors (enterprises, universities, local government etc.).

The current crisis calls for a broader analysis of the impacts, which requires the inclusion of many dimensions and variables beyond the strictly economic ones.

- It is recognised the need to be more inclusive in the geography of our analysis, encompassing more countries and refining our knowledge of local units and rural, urban or metropolitan areas.
- Future analysis should improve the understanding of interregional exchanges, swapping of human capital, goods and services.

A better knowledge of well-being, taking into account the multidimensional local outcomes, including as perceived by citizens. This implies to extract information at local level, useful for policy makers but also to people's decisions.

COUNTRY RESPONSES TO: WHAT REGIONAL-LEVEL ACTION ARE YOU TAKING IN RESPONSE TO THE ECONOMIC CRISIS?

Answers confirm that global progress will also depend on regional actions

FINLAND

Economic crisis and regional development Why co-operation counts



©Finnish government

Mari Kiviniemi,
Finland's Minister of Public
Administration and Local
Government

Finland's experience from the 1990s shows that economic recession inevitably has an influence on regional development. Although recession hits urban areas harder than others, these also have a greater capacity and potential to bounce back when economic recovery starts. This is one reason why economic development tends to concentrate in and around urban areas.

Finland recovered from the 1990s recession within just a few years to become one of the most competitive economies in the world. How was this done? The secret can be found in three words: determination, perseverance and luck. Time has shown that the tough choices made then were the right ones. However, the role of Nokia in Finland's success cannot be denied.

Co-operation was crucial for our actions to succeed. When the crisis was at its worst, politicians and representatives of the Finnish economy worked together to decide on the necessary measures and how to target them. The government and parliament enacted reforms, and support was provided for structural changes in industry. Additional and carefully targeted investments were made, especially in education and R&D. These investments in particular, together with a regionally decentralised and comprehensive education and university network, and strong co-operation and networking among institutes of higher education, research institutes and businesses, helped Finland rise in the ranks of the world's most competitive countries.

Our successful response to the 1990s recession clearly shows how a determined and well-targeted recovery policy can positively affect regions and the national economy. However, ensuring that public investments and other measures achieve their goals cannot simply be done by implementing macro-level measures. Instead this requires extensive co-operation among central, regional and local government actors in creating tailored solutions.

Today in Finland, solutions for curbing the current economic crisis are being largely sought along the same lines as during the previous recession. Public investments are being targeted at projects of crucial importance to regional development; increasing investments are being made in R&D activity, education and competence; regional and local innovation and expertise are being developed; and the networking of regional actors involved is being extended, even internationally. To enhance these measures, public sector structures and operating models are being reformed and new methods and forms of co-operation are being devised among the various parties involved.

In addition to improving the preconditions for regional development in the long term, the recovery package in Finland also includes rapid and flexible response measures to provide assistance to regions and municipalities that face sudden problems, such as those caused by factory closures. Structural change measures can now be launched in close co-operation at the ministerial, regional and local levels as soon as such problems emerge. The aim is to alleviate the effects of the crisis, renew the production structure of the regions and, in the long run, create new development potential and opportunities.

It remains to be seen whether these measures prove sufficient to securing Finland's future in the prevailing global economic crisis.

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AUSTRALIA

Preparing regions for the future



Anthony Albanese
Minister for Infrastructure,
Transport, Regional Development
and Local Government

Nearly two-thirds of Australians live in our capital cities but it is Australia's regions that generate two thirds of our export earnings.

Our natural wealth-resources and agriculture-underpins our economy. The quality of life in our cities, country towns and outback communities is linked to the success of these regionally based industries.

The Australian government is taking decisive action and implementing comprehensive plans not only to address the short-term regional consequences of the global recession, but also to ensure that Australia is well-positioned for the recovery.

In February 2009, the government announced a \$42 billion Nation Building and Jobs Plan to invest in infrastructure and support jobs. This builds on significant funding already announced for infrastructure in last year's national budget.

As a result, rural and regional communities will see substantial investment in their roads, railways and social and community facilities.

We are investing \$21.2 billion on regional transport infrastructure over six years. This record funding has also enabled work to be accelerated by up to 12 months on 46 key road projects around the country.

We are also investing \$7.9 billion in Australia's rail networks, a majority of which is directed into regional areas.

The government has also launched an \$800 million Community Infrastructure Programme – the largest of its kind in Australia's history. It will fund local governments to build infrastructure such as town halls, local libraries and sporting facilities, in order to support jobs at a local level.

We will provide funding for the construction or refurbishment of a building in each and every rural and regional primary school, with further funding for maintenance and minor building works for all schools.

We have established the Australian Council of Local Government—a consultative forum on the delivery of local infrastructure and services.

We are also establishing Regional Development Australia, a network of local advisory committees, with the aim of engaging communities and improving the delivery of government programmes.

The Australian Government's plans are about helping regional communities to weather the global economic storm, as well as making them better able to take advantage of economic opportunities into the future.

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CZECH REPUBLIC

**Economic crisis and regional development:
“recovery package” measures**

Cyril Svoboda
Minister for Regional
Development

Despite some positive aspects of the implementation of regional policy, the regional disparities still exist in the Czech Republic. There is a dichotomy between the capital, Prague, on the one hand, and other regions with low economic efficiency on the other hand. In the Czech Republic as well as in other OECD countries, the current economic crisis definitely reveals historically deformed regional economic structure that has been very difficult to overcome in last decades. Some regions are facing impacts of the crisis more severely today, including the bankruptcies of various companies in the given territories that are internationally long-uncompetitive (*e.g.* glass industry, porcelain industry, textile or wood processing industry).

In reaction to the worsening economic outlook, to tackle the crisis, to diminish its impact on the economy and the population particularly in the regions outside of Prague, the Government of the Czech Republic has adopted a “recovery package” in February 2009.

The package includes measures that will help to solve the issues both on regional and local levels according to specific needs and conditions.

I would like to mention the measures which – in my point of view – may have extensive regional impact.

- Support for small and medium sized enterprises (by means of bargain package credit and guarantee for credits) connected with the promotion of fast retraining of the labour force in the regions with a considerable rise in unemployment.
- Lowering of taxes and social insurance and direct assistance to the households.
- As a minister also responsible for a housing policy, under the anti-crisis measures I have enforced the tools supporting the revitalisation and modernisation mainly of the housing estates built in prefab technology. In many regions this measure will boost building and other sectors including job growth.
- The whole set of measures implementing through the Operational programmes of the Structural funds of the EU lead to the promoting of regional innovation – for instance building the centres of excellence outside the main poles of economic development in the Czech Republic, the introduction of new technologies or the use of renewable energy resources in the regions with appropriate pre-requisites.

- Increase in public expenditure (one-off increase in capital of Czech Export Bank, the Export Guarantee and Insurance Corporation, the Czech-Moravian Guarantee and Development Bank – all these institutions are focused on the support of business in the Czech Republic; increase in capital of the Support and Guarantee Agricultural and Forestry Fund; allocation of Funds for construction and modernisation of infrastructure within the State Fund for Transport Infrastructure). Total amount of Funds in the recovery package is CZK 39 billion.

The Czech government considers these measures as a crucial for the economic restructuring in the affected regions, and at the same time, for increasing of their competitiveness both at national and international levels.

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EUROPEAN UNION

Greener cohesion



Danuta Hübner,
European Commissioner for
Regional Policy

As the European Union's largest source of investment in the real economy, the EUR 347 billion Cohesion Policy provides vital and secure funding at regional level. The importance of this investment is clearer than ever in the current economic climate.

This funding, which represents 35.7% of the European Union budget and 0.38% of total GDP, co-finances hundreds of thousands of projects across the EU. The focus is on creating sustainable jobs, growth and competitiveness through investment in priority areas such as modern infrastructure, innovation, small businesses, the environment, broadband and training.

The Cohesion's Policy's contribution to the Commission's European Economic Recovery Plan is significant, with measures aimed at accelerating project implementation and injecting confidence in regional economies. The package includes:

- An increase in advance payments for regional development, with an additional EUR 6.25 billion released in 2009 (this brings the total of “front-loaded” regional aid to nearly EUR 30 billion since 2007);
- A six-month extension of the deadline (to 30 June 2009) for payment reimbursement claims for regional programmes launched in 2000-2006. This will enable regions to ensure that every last euro is invested;
- More flexibility which allows member states to re-allocate funds between budget headings to target funding where its impact will be greatest;
- Immediate funding for major projects without the need for prior approval by the Commission (900 major projects will be implemented in 2007-13, representing a total investment of EUR 120 billion);
- Simplification of eligibility rules to reduce red-tape;
- Green light for member states to allocate up to EUR 8 billion from their European Regional Development Fund grants for energy efficiency and renewable energy improvements in housing (this means the EU can co-finance local or regional authority initiatives to promote installation of energy-saving double glazing, insulation, new boilers etc.)

More generally, the Cohesion Policy is geared to the "green economy" of the future. Of the EUR 347 billion allocated for regional development in 2007-2013, more than 30% (EUR 105 billion) is focused on green objectives and jobs. Almost half of the envelope (EUR 48 billion) is targeted at measures aimed at achieving EU climate objectives and creating a low carbon economy, with EUR 23 billion for railways, EUR 6 billion for clean urban transport, EUR 4.8 billion for renewable energies and EUR 4.2 billion for energy efficiency.

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FRANCE

Regional dimension of the recovery plan

**Pierre Dartout**

Member of the Interministerial
Delegation on Territorial Planning
and Competitiveness
(Délégué interministériel à
l'Aménagement et à la
Compétitivité des territoires,
DIACT)

The economic stimulus plan, the broad outlines of which were traced by the President of France in December 2008, places strong emphasis on providing stimulus through investment. The Government also considers that all French regions should be involved in this plan and has identified projects that are ready to start immediately and can have a rapid ripple effect on regional economies and the preservation of local businesses. Some of the projects selected are initiatives included in the State-Region planning contracts already negotiated with regional and local governments.

The stimulus plan, approved at the meeting of the Interministerial Committee for Territorial Development and Competitiveness (Comité interministériel d'aménagement et de compétitivité des territoires, CIACT) held on 2 February in Lyon, consists firstly of an exceptional programme of public investments in fields that include transport, higher education and research, defence and cultural heritage (EUR 4 billion). This programme is being supplemented by matching investments by the major public and semi-public companies (French electricity company EDF, French railway SNCF, Paris public transport network RATP, Post Office, etc.) and support in the form of loans from the savings funds of the Caisse des Dépôts et Consignations (EUR 8 billion). Lastly, a further EUR 2.5 billion is being provided in the form of accelerated VAT refunds to encourage local governments to sustain their public investment effort. This system will be maintained in the future.

A second segment of the plan targets the housing sector, which has been particularly hard hit by the crisis, and will entail the construction of 100 000 housing units, faster implementation of urban renewal programmes in suburban areas, steps to promote home ownership by low-income households, etc.

At the same time, at the end of its EU Presidency, France asked the European Commission to allow greater flexibility in the use of European funds, which will make it possible to finance energy-efficiency projects in social housing, facilitate access to business financing through financial engineering funds, etc.

By combining management of the national investment plan at the most appropriate local level and more effective regional deployment of European Structural Funds, this approach addresses the Government's dual objectives of local response to the difficulties of businesses and involvement by all stakeholders in economic recovery throughout all regions nationwide.

Visit www.diact.gouv.fr/

JAPAN

Urban and regional policy as a national strategy

**Makoto Taketoshi**

Vice-Minister
Ministry of Land
Infrastructure, Transport and
Tourism

Japan experienced an economic crisis when an asset bubble burst in the 1990s. In response to that crisis, Japan implemented countermeasures not only in the form of monetary and fiscal policies, including the disposal of non-performing loans, but also in regional policies.

One of these countermeasures was an urban renaissance policy. The aim was to revitalise urban areas and their economies by promoting private investment in urban development projects. Incentives were introduced for encouraging private investment: first, with deregulation to maximise private initiative, and then with financial supports and tax relief measures for businesses, taking into account the credit crunch in the financial market at that time.

This urban renaissance policy remains an important pillar in Japan's urban policy framework, and is expected to create large domestic demand in the economy. We believe the policy will act as an effective countermeasure against the current economic crisis.

Another countermeasure taken at the time was the establishment of J-REIT (Japan- Real Estate Investment Trust), a market for real estate securitisation. In those days, major banks were nationalised due to the growing volume of non-performing loans. With financial institutions paralysed, the listed trading of J-REIT was kicked off in September 2001 in a bid to revitalise the real estate market.

OECD began addressing urban decline as a national policy issue in the 1980s. The discussions held at that time proved to be extremely valuable in advancing Japan's urban renaissance.

In the current economic crisis, the kind of crisis that occurs "once in a hundred years", I have high expectations of the role OECD can play again.

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MEXICO

Policy options for regional concerns



Gustavo Merino Juárez
Vice-Minister for Prospective,
Planning and Evaluation, Ministry
of Social Development (Sedesol)

The 1994-95 economic crisis left two lessons for Mexico: the country needed to maintain fiscal responsibility and develop programs specifically focused on poor households. In the aftermath of the crisis, the successful *Oportunidades* conditional cash transfer program (previously known as *Progresa*) was created; it now covers 5.2 million households – one out of every four Mexicans receive support from it.

The institutional changes introduced in the last decade crisis have permitted a much more robust response to the current economic downturn. To protect workers' employment, we have launched a USD 140 million *Job Preservation Program* that provides lay-off-avoidance subsidies to companies at hard-hit industries. The *Temporary Employment Program's* budget was enlarged by 46% – to over USD 154 million – with the entire increase focused on regions with high levels of unemployment. The USD 40 billion *National Public Infrastructure Program* has been strengthened, with loans and warranties provided by development banks to guarantee completion of its main projects. Prices for publicly-provided products have been either decreased or frozen. To protect the poor, cash transfers were significantly increased (by 23% in *Oportunidades* and by 49% in the Food Support Program); supply of food and basic products, at discount prices is guaranteed by a network of community shops; the price of subsidised, fortified milk provided through the Social Supply of *Milk Program* was frozen. These poverty alleviation programs have a combined budget of USD 3.8 billion. Additional measures have been enacted, including increases in credit supply by development banks; a guarantee to acquire at least 20% of the government's purchases from small and medium businesses, and a reduction on the tax-refund waiting period, among others.

The abovementioned instruments complement ongoing efforts to enhance the competitiveness of Mexico's regions, such as two programs focused on the development of urban and rural priority areas; as well as several funds worth USD 28.3 billion that are administered directly by State and Municipal governments and are invested on education, social development and social infrastructure projects.

Visit www.sedesol.gob.mx

POLAND

Making finance work



Elżbieta Bieńkowska
Minister
Regional Development

Although Poland was not hit the hardest by the ongoing recession, its effects have differed across regions. As a result, any anti-crisis response should both take into account particular regional characteristics and provide a package of well co-ordinated actions across different sectors. These conditions are met by EU structural funds, for instance, which are the main source of public investment in regional development in Poland.

For the period of 2007-2013 Poland's regional authorities hold direct responsibility for 25% of the total allocation of those funds, which comes to nearly EUR 17 billion. This money is of crucial importance for smoothing the negative effects of the credit crunch on central and regional finances, and has become one of the pillars of Poland's national recovery effort.

As a part of this package, in January 2009 I presented the Programme for faster implementation of programmes financed by EU Funds to the Council of Ministries. I believe that a fast disbursement of funds will allow us to provide our economy in 2009 with investment in infrastructure, human capital and business environment worth around 1.3% of GDP. The instruments being implemented within the programme include an extended use of pre-payments for all beneficiaries, faster transfers of money for major infrastructure projects and an additional EUR 1.3 billion to be used in 2011 to strengthen the most speedily and efficiently realised operational programmes, including 16 regional programmes.

That provides a substantial incentive for the regions to promptly improve their performance, since in two years' time the allocation of these additional resources will depend on the assessment of their effectiveness in implementing regional programmes according to their development strategies' priorities. Since fast transmission of funds is of crucial importance in times of financial crisis, more efficient and faster mechanisms for providing regional governments with financial means are also envisaged.

I hope that this active response of the Polish government will not only help to reduce regional suffering from the economic downturn and financial crunch but, via the different competition and effectiveness-based measures, also ensure a better starting point when the recovery begins.

Visit www.mrr.gov.pl/english/Strony/default.aspx;
and www.oecd.org/poland,

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SPAIN

Spanish economy and employment stimulation plan



Elena Salgado Méndez
Minister of Public
Administration,

The Spanish Government has implemented the Spanish Economy and Employment Stimulation Plan (Plan E), which signifies an unprecedented movement of public resources in our country.

This Plan provides support measures to families, to companies and to the financial system, and incorporates measures for the modernisation of the economy in order to improve the productivity of such fundamental sectors as transport, energy, telecommunications, services and Public Administration.

The Spanish Government is convinced that the public sector plays a fundamental role in boosting economic development through its infrastructure investment policy, and investment and promotion of Research, Development and innovation. Investments in both of them have a direct impact on competitiveness and productivity and contribute to creating more and better quality jobs.

One of the main measures of our extraordinary fiscal package is the Spanish Local Investment Fund. The aim of this Fund is to encourage local councils to undertake public works and investments that create employment, in order to reactivate the economy in 2009. The Fund total is EUR 8 000 million, which doubles the average annual investment spent on public works by all the local councils in Spain put together.

Distribution of the Fund among municipalities has been done on the only basis of population, so that benefits reach even the smallest village.

Through this initiative around 31 000 projects have been approved in ten weeks, and most of the works have already been started. Projects have been presented by more than 8 000 municipalities, 99.9% of total, all over Spain.

The total effect on employment of the State Fund for Local Investment is expected to be the creation of around 278 000 jobs through direct employment, and up to 400 000 jobs including indirect employment.

In all these measures aimed at stimulus of the economy, it is not only central Government that should be committed to their success; but it is also the responsibility of all Public Administrations, including local and regional government, to confront and employ the most suitable measures for their respective areas.

Of course, combined action between the different levels of government is the best way of ensuring that the measures are successful.

Visit www.mpr.es and www.map.es

UNITED STATES

Recovery through investment



Gary Locke
US Secretary of Commerce

The Obama administration is taking aggressive action to respond to an economic crisis unlike any since the Great Depression by investing more heavily and more wisely in regional activities to spur job growth and economic development.

The American Recovery and Reinvestment Act of 2009 is an unprecedented effort to jumpstart our economy, create or save millions of jobs, and put a down payment on addressing long-neglected challenges so our country can thrive in the 21st century. The Recovery Act includes USD 150 million for the US Department of Commerce's Economic Development Administration (EDA) to provide grants to economically distressed areas, with priority consideration being given to those areas that have experienced sudden and severe economic dislocation and job loss due to corporate restructuring. EDA grants support regional efforts to create higher skills, higher-wage jobs by promoting innovation and entrepreneurship and connecting regional economies with the worldwide marketplace.

In addition to EDA funding under the Recovery Act, President Obama's 2010 federal budget proposal provides EDA with:

- USD 50 million for regional planning and matching grants to support the creation of regional innovation clusters that leverage regions' existing competitive strengths to boost job creation and economic growth; and
- USD 50 million to launch an initiative to create a nationwide network of public-private business incubators to encourage entrepreneurial activity in economically distressed areas. EDA recently funded a study focused on assessing the economic impacts and federal costs of the agency's construction investments. The study showed, among other things, that EDA investments in business incubators were more correlated with job growth than other project types.

Of course, funding for EDA activities is only a part of a much larger response from the Obama administration that includes agencies across the federal government. Meanwhile, American citizens are empowered to be a part of the recovery process through a new federal website, recovery.gov, which features information on how the Act is working, tools to help hold the government accountable, and up-to-date data on the expenditure of funds.

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BRAZIL

Building regional resilience



Geddel Vieira Lima
Minister for National Integration

If there is a consensus among all observers of the global crisis, OECD included, it is the fact that Brazil, while also suffering from some of its impacts, will be less affected than many other countries.

Our economy had shown strong rates of growth, with good job creation and improved income distribution. The Brazilian government has adopted a vigilant and pro-active stance, and is permanently ready to launch comprehensive actions to mitigate any undesirable impacts from the crisis on our economy.

These actions cover a wide spectrum, from targeted government interventions in areas such as fiscal, interest and exchange rate policies and trade, to structural support for infrastructure and the strengthening of the country's internal market.

Indeed, Brazil is committing major investments into infrastructure. Under the responsibility of my Ministry alone, EUR 1.6 billion is being invested in public works to guarantee access to water in semi-arid areas of the country. Another EUR 1.2 billion is going into developing the railways for the northeastern region, which will enable more cost-effective cargo transportation than has hitherto been possible in that part of the country. Brazil's stronger, more integrated internal market has been achieved thanks to better access for newly restructured production sectors and a boost in spending power among large segments of the society, brought about by social programmes that have helped the Brazilian middle class to expand.

In sum, I would say that the Brazilian national regional development policy, which has been formally implemented over the past two years by the Ministry I am proud to head, has played a key role in bolstering Brazilian resistance to the effects of the global crisis.

Our policies of improving social capital and providing support to economic sectors that are more competitive and market oriented, as well as environmentally sound and locally committed, is helping to equip Brazil with a new sustainable development model that will allow more effective production and consumption flows than were possible under the economic and financial rules that prevailed before the crisis.

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SOUTH AFRICA

Regional level action in response to the economic crisis



Ebrahim Rasool
Special Advisor to the President
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There is no doubt that countries of the South, essentially non-OECD countries, are feeling the effects of the global economic crisis. Despite the fact that this crisis does not originate in the developing world, a country like South Africa, despite having the 15th strongest banking systems, has seen growth in GDP fall to about 2%, projections of 300 000 job losses and a loss of investment confidence.

In response, South Africa at a national level has set a few ground rules to manage the economic crisis. Most important of these include an approach that ensures engagements between Government, Business, Labour and civil society; an undertaking to shield poor and vulnerable communities from the worst effects; and to use monetary policy as an instrument to protect the economy.

In the context of these National measures, regional interventions, are based on accelerating the implementation of Provincial Growth and Development Strategies in combination with regional spatial strategies. The combined effect is meant to harness regional strengths, focus on local specificities in economic activity, and build city-regions that are globally competitive and innovative. These measures get greater impetus from the country's preparation for hosting the FIFA Soccer World Cup in 2010.

Concretely, this means focused investment in regional economies which span the spectrum of:

- Social Investment in the poor through improved social security, food security measures, and acceleration of free basic services to ensure social cohesion in difficult times;
- Using this period to advance skills development and infrastructure development for sectors of the economy that should strengthen after the crisis;
- Instead of bail-out, to develop rather a set of incentives to keep factories open and workers working as a means to protect vulnerable economic sectors;
- Locating innovation centres in potentially competitive regions and networking tertiary institutions into the designs of Growth and Development Strategies; and
- Reforming the State so as to cohere the country's planning, implementation and evaluation capacity to ensure national coherence and regional innovation.

Visit www.thepresidency.gov.za