

Meeting of the Territorial Policy Committee and Ministerial level:
“Investing for Growth: Building Innovative Regions”
Chair’s Summary

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 maximizing 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 maximized 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 maximize 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 recognizing 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 maximize economies of agglomeration by providing infrastructure and other public goods. This includes investment in human capital formation as a key tool to maximize 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.

Recognizing 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 coordinating 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.

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Ministers underlined the following:

- 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 maximizing 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 also serve as a practical means to accelerate investment in a coherent and strategic manner.
- 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.
- 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 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, 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.