Regional Development Policies in OECD Countries





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Foreword

Across the OECD, the globalisation of trade and economic activity increasingly tests the ability of regional economies to adapt and exploit or maintain their competitive edge. On the one hand, there is a tendency for performance gaps to widen between and within regions, and the cost of maintaining cohesion is increasing. On the other hand, rapid technological change, the extension of markets and the greater use of knowledge offer new opportunities for local and regional development. This requires further investment in the business environment, reorganisation of labour and production, and upgrading skills and environmental improvements. All of these trends are leading public authorities to reconsider their strategies. The role of policies aimed at improving the competitiveness of regions by promoting the valorisation and use of endogenous resources has been strengthened.

Along these lines, the vertical distribution of power between the different tiers of government and the decentralisation of resources and competencies need to be reassessed in order to better respond to the diverse opportunities and demands of the different regions and improve policy efficiency. Public authorities need to weigh current challenges, evaluate the strategies pursued in recent years and define new options.

Comparing regional policies across OECD member countries suggests future directions and best practices for policy makers. However, such information has often been limited. This report is a handy reference to regional policies and offers some tools for cross-country analysis based on sound comparable information. It is the first systematic comparative analysis of OECD member countries' regional policies.

The report covers key issues, such as problem recognition, objectives of regional policy, legal/institutional frameworks, urban/rural frameworks, budget structures, and governance mechanisms between national and sub-national governments as well as across sectors. The comparative analysis uses a common conceptual framework, which allows countries to share their experiences. The analysis suggests an important role for regional policies in shaping sustainable endogenous development, notably the need for well-developed governance mechanisms capable of better responding to the diverse opportunities and demands of different regions in order to improve policy efficiency.

This report was presented and discussed at the OECD Territorial Development Policy Committee (TDPC). This committee was created in 1999, responding to the need of studying and spreading innovative territorial development strategies, as well as governance practices, in a more systematic way. It is a unique forum for international exchange and debate on regional policy. The TDPC has developed a number of activities, including a series of Territorial Reviews *and analytical reports on different regional policy issues.*

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Chapter 1

Regional Development Policy Trends in OECD Member Countries

Chapter 1 summarises the trends of regional development policies in OECD member countries, beginning with problem recognition (the problems or challenges recognised by the country) and the objectives of regional development policies, followed by an overview of the legal and institutional framework including major policy tools, the urban/rural policy framework and the budget system. Finally, institutional aspects such as multi-level governance and horizontal governance are presented. The analysis suggests an important role for regional policies in shaping sustainable endogenous development, notably the need for well-developed governance mechanisms capable of better responding to the diverse opportunities and demands of different regions in order to improve policy efficiency.

Introduction

This publication aims to provide a comparative perspective of regional development policies across OECD member countries. It intends to present information in an easily comprehensible and comparable format by using the same headings for each country. The information included is mainly drawn from input from delegates of the OECD Territorial Development Policy Committee (TDPC), *OECD Territorial Reviews*, academic papers and websites of the ministries responsible for regional development.

The publication is divided into two chapters with several annexes. Chapter 1 discusses regional development policy trends in OECD member countries.[1] Chapter 2 provides a policy index sheet and country profile of each country. Annex A briefly explains EU Cohesion Policy. Annexes B and C present thematic issues: trends of cross-border co-operation and urban-rural linkages in view of controlling urban sprawl.

The OECD Secretariat drafted the country profiles based primarily on *OECD Territorial Reviews.* They were then circulated to the TDPC delegates accompanied by the following questions.

Problem recognition and objectives of regional development policy

- Problem recognition: what are the challenges facing regions (*e.g.* regional disparities and/or lack of competitiveness)?
- Objectives of regional development policies: what are the main objectives of regional policy in strategic planning documents or in the basic regional development act? Competitiveness? Regional balance/cohesion?

Legal and institutional frameworks

- Legal/institutional framework: what is the main policy framework (*e.g.* national institutional structure, basic regional development act)?
- What is the urban/rural policy framework?
- What is the spatial orientation: urban/rural, potential areas/problem areas?
- Major policy tools: what are the main policy tools that contribute to regional policy objectives (*e.g.* grants, loans, cluster policy, growth pole policy, aid to lagging areas)?
- Budget: what public resources are attributed to regional development policy? What is the size and system of government transfer to sub-regional governments?

Governance

- Horizontal governance: what types of policy co-ordination exist at the central level (*e.g.* inter-ministerial committees, a fully fledged regional development ministry)?
- Vertical governance: what types of multi-level governance exist between the national and sub-national levels (*e.g.* contracts, joint representation of central and sub-national officials)?

- Horizontal governance at the regional level (cross-sectoral): what types of cross-sectoral policy co-ordination exist at the regional level (*e.g.* regional councils, regional planning)?
- Inter-municipal/intra-regional governance: what types of policy co-ordination exist at the regional level (geographic)? What measures are taken to respond to the needs of expanding functional areas or to provide public services (*e.g.* municipality mergers, inter-municipal organisations)?
- Evaluation and monitoring: has the regional policy evaluation and monitoring system evolved?
- Future directions: what are the key priorities on the regional development policy agenda (*e.g.* decentralisation reform, municipal mergers, creation of a regional level government, spatial planning reform, state grant reform, increased focus on "sustainability" in regional policy)?
- (For EU member countries only) What impact do EU policies have? How are EU policies implemented?

Based mainly on the country profiles (see Chapter 2), OECD (2009a) and Yuill *et al* (2008), the OECD Secretariat summarised the trends of regional development policies in OECD member countries, beginning with the problem recognition (the problems or challenges recognized by the country) and the objectives of regional development policies, followed by an overview of the legal and institutional framework including major policy tools, the urban/rural policy framework and the budget system. Finally, institutional aspects such as multi-level governance and horizontal governance are presented. This analysis has involved some judgements on the qualitative differences among policies.

1.1. Problem recognition and objectives of regional development policy

Paradigm shift of regional development policy

Regional policy began in most OECD member countries in the 1950s and 1960s, which was a period of relatively strong economic growth, fiscal expansion and low unemployment. The principal objectives of regional policy were greater equity and balanced development during a period of rapid industrialisation, which was accompanied by increasing regional disparities. Theoretically it was assumed that government intervention could alter *demand* conditions in the lagging regions. The main instruments used were wealth redistribution through financial transfers by the national government accompanied by large-scale public investments, especially in lagging regions.

During the 1970s and early 1980s successive economic shocks and changes in the global economy led to geographical concentrations of unemployment in many OECD member countries, and regional policy evolved rapidly to address this new challenge. The focus was extended from reducing disparities in income and infrastructure to reducing disparities in employment as well. The theoretical assumption that guided policy at that time was that public policy could alter *supply* conditions (essentially by changing production cost factors through production subsidies and incentives) thereby influencing industrial location decisions with respect to existing firms and new investments. This

increased the focus on direct support to firms, either by supporting ongoing activities or by attracting new jobs and investment to unemployment black spots.

From the immediate post-war period up until the late 1980s, regional policy predominantly focused on regional investment aid and infrastructure support, with policy interventions heavily targeting designated (often lagging) aid areas (OECD, 2009a). In the European Union (EU), Cohesion Policy also mainly focused on infrastructure development until the 1980s. The theoretical assumption that justified regional policies was that convergence was not always assured through market mechanisms.

However, in spite of long-term government efforts, regional disparities were not significantly reduced. Against a background of increasing globalisation, decentralisation, and budget strain[2] since the 1980s, large allocations for regional programmes have become unsustainable in a period of successive economic recessions, generalised higher levels of unemployment and increasing pressure on public expenditures. As a response to these poor outcomes, the classic argument of market failures was complemented by arguing that policies also failed, suggesting a new approach to policy making. Regional policy has evolved from a top-down subsidy-based group of interventions designed to reduce regional disparities, into much broader policies designed to improve "regional competitiveness". National governments are increasingly favouring regional growth over redistribution, in pursuit of national or regional competitiveness and balanced national development. Territorial development instruments have become broader in scope, even in the supported areas, and have adapted to the requirements of individual regions. This policy approach involves a growing trend of decentralisation to the regional levels. Regional strategic programmes and programming have grown in prominence, reflecting a general policy shift towards support for endogenous development and the business environment, building on regional potential and capabilities, and aiming to foster innovation-oriented initiatives.

Multi-level governance approaches involving national, regional and local governments as well as third-party stakeholders (*e.g.* private actors and non-profit organisations – NPOs) have increased in importance, compared to previous approaches dominated by central government. At the same time, better recognition of the interdependencies of sectoral policies and the impacts on regions has facilitated co-operation of cross-sectoral policies (Yuill *et al.*, 2008). Following a long period during which regional policy was marginal, it has now become a more central element of policy in OECD member countries. Comprehensive regional policies are increasingly regarded as complementary to national economic and structural policies by helping to generate growth in the regions. The paradigm shift of regional development policy thus involves new objectives, a new geographical scope, new governance and new policy instruments (Table 1.1).

Table 1.1. **Paradigm shift of regional development policy**

	Old paradigm	New paradigm
Problem recognition	Regional disparities in income, infrastructure stock, and employment	Lack of regional competitiveness, underused regional potential
Objectives	Equity through balanced regional development	Competitiveness and equity
General policy framework	Compensating temporally for location disadvantages of lagging regions, responding to shocks (*e.g.* industrial decline) (*Reactive to problems*)	Tapping underutilised regional potential through regional programming (*Proactive for potential*)
– theme coverage	Sectoral approach with a limited set of sectors	Integrated and comprehensive development projects with wider policy area coverage
– spatial orientation	Targeted at lagging regions	All-region focus
– unit for policy intervention	Administrative areas	Functional areas
– time dimension	Short term	Long term
– approach	One-size-fits-all approach	Context-specific approach (place-based approach)
– focus	Exogenous investments and transfers	Endogenous local assets and knowledge
Instruments	Subsidies and state aid (often to individual firms)	Mixed investment for soft and hard capital (business environment, labour market, infrastructure)
Actors	Central government	Different levels of government, various stakeholders (public, private, NGOs)

A paradigm shift is an ongoing transition process which tends to take time. The co-existence of "old" and "new" paradigms can be observed in most OECD member countries. Regional policy based on the new paradigm is relatively new compared to regional policy based on the old paradigm and sectoral policies. As explained below, many countries have adopted the new paradigm in their policy objectives, but its implementation remains much more challenging. It must be highlighted that sometimes changes of policy statements have not accompanied change in policy instruments. In these cases, the change is mostly rhetorical, without many impacts in the real world.

Problem recognition

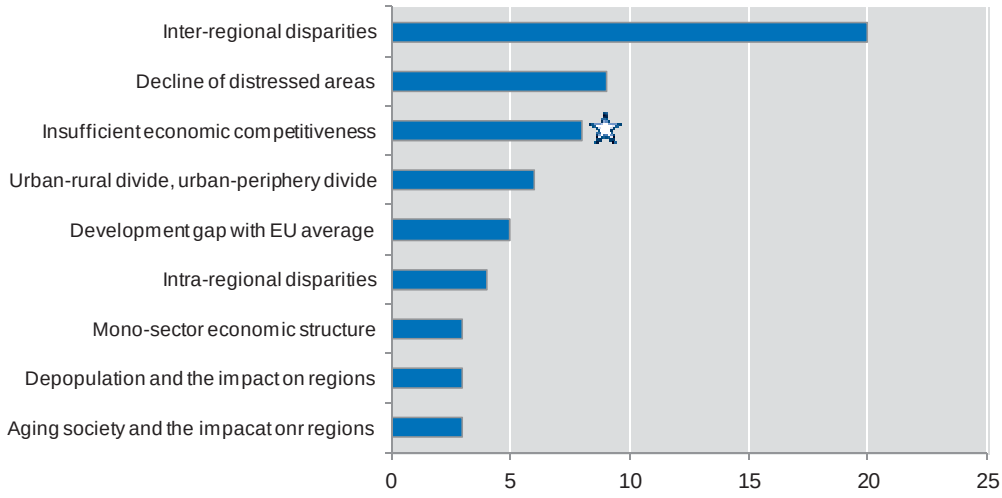
Problem recognition of OECD member countries is shown in Figure 1.1 based on the classification in Table 1.A1.1. In most countries, socio-economic disparities persist, though there are differences in intensity and in how these problems are perceived. In some countries, disparities are considered to be relatively limited and do not justify major regionally targeted interventions (*e.g.* Austria, Denmark, Luxembourg, and the Netherlands).

In some countries severe inter-regional disparities remain or are even increasing. Policy responses to these disparities are divided into three categories: *i*) keeping the main policy focus on regional disparities (*e.g.* Germany and Italy); *ii*) providing support for lagging regions although it is not the main policy focus (*e.g.* Finland and Japan); and *iii*) focusing on *national* economic growth in spite of internal disparities (*e.g.* Czech Republic and Hungary).

The traditional focus on inter-regional disparities has been complemented with more detailed *intra*-regional disparities, an urban-rural divide and concern about the decline of distressed areas (*e.g.* old industrial areas, rural areas, urban poverty pockets). At the same time, many countries now consider themselves within a global context and prioritise the development of all regions in their efforts to maximise national growth. Competitiveness-oriented problem recognition has increased (marked with a star in Figure 1.1). Sustainability issues and demographic structures have been emerging concerns.

Figure 1.1. **Problem recognition by the central government**

(number of countries)



Note: Some countries gave multiple responses.

Objectives of regional development policies

Most countries implement regional policies with both equity (regional balance) and efficiency (growth and competitiveness) objectives (Figure 1.2 and Table 1.A1.2). Regional equity underpins regional policy in many countries. Some countries have a constitutional commitment to territorial balance (*e.g.* Germany, Italy, Korea and Spain). Examples of equity components in regional policy include: prioritisation of peripheral areas in Denmark, regional balance focus in Finland, territorial cohesion in France, and equal living conditions in Norway.

Increasing attention is now paid to growth and competitiveness (marked with a star in Figure 1.2), though a number of countries also emphasise the link between regional growth and territorial balance and view these two policy objectives as being closely inter-connected and reinforcing. Recent examples of growth orientation policies include: the enhanced competitiveness orientation to policy in France, the Peaks approach in the Netherlands, and the renamed regional growth policy in Sweden. Many other OECD member countries, such as Austria, Finland, Korea, New Zealand, Poland and the United Kingdom are also following this path. The concept of "endogenous development" based

on the potential of regional assets, combining social and environmental sustainability with competitiveness is also gaining popularity in countries such as Australia, Ireland, Norway and Turkey (marked with a star in Figure 1.2).

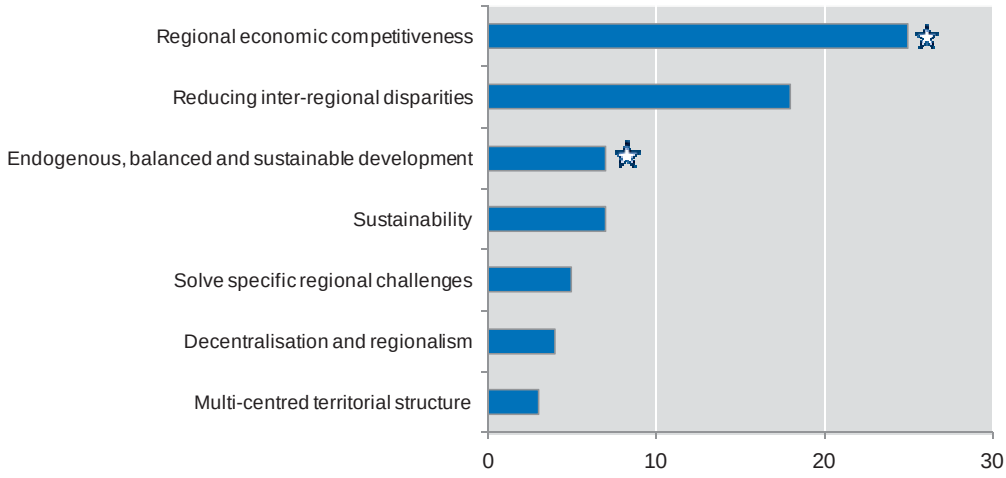
The equity dimension is often discussed from the social objective perspective of allowing all citizens equal opportunities and concerns human rights. Human rights are defined not in terms of income levels, but as the satisfaction of conditions which are necessary for each individual to live. These conditions are expressed as access to collective public services such as basic education and basic transport infrastructures. The efficiency dimension concerns citizen's "opportunities to increase their well-being". This is often related to collective services such as higher education and high quality accessibility and marketing services. The line between rights and opportunities is far from clear-cut. However, it is extremely important to make this distinction, as the two objectives differ completely in terms of policy (Barca in OECD, 2006a). Sometimes these two dimensions complement each other but other times conflict arises if they are misaligned. In Canada, economic development policy is clearly differentiated from the Equalisation Programme. In Norway, "narrow" regional policy focuses on competitiveness factors such as entrepreneurship, innovation, competences and networks while "broad" regional policy focuses on public service provision and related accessibility.

A comparison between Figure 1.1 (problem recognition) and Figure 1.2 (policy objectives) suggests that many countries still have regional disparity concerns but approach the problem from different angles. The paradigm shift to new regional policy can be clearly observed from these figures (especially when comparing items marked with a star).

Besides equity and growth components, sustainable development is gradually being included in regional policy objectives (*e.g.* Belgium, France, Hungary and Spain). Improved governance, especially decentralisation and regionalism, is also a regional policy goal in some countries (*e.g.* Hungary and Korea). Maintaining and/or developing the spatial structure (such as a multi-centred territorial structure, inter-regional co-operation) is a policy goal in a more limited group of countries. Historically it has been stressed in countries with areas challenged by sparse population, and where uniform service provision is an issue (*e.g.* Finland, Ireland and Norway). More generally, spatial planning priorities are taken into account within regional development goals in a growing number of countries. This has long been the case in the Netherlands and has been highlighted in recent years in countries like Portugal and the United Kingdom, partly in response to broader EU policy supports.

Figure 1.2. **Objectives of regional development policy**

(number of countries)



Note: Some countries gave multiple responses.

1.2. Legal and institutional frameworks

Main policy frameworks

The distinction has been made between policies based on the old paradigm and policies based on the new paradigm. The old stream of policies are top-down, aid-based, investment-oriented, and targeted at designated problem regions while the new stream of policies are implemented with multi-level government co-operation, programme-based and targeted at the entire country (Yuill *et al.*, 2008). The old paradigm policies, which target aid at traditional problem regions, generally remain significant, as seen in some countries (*e.g.* Finland, Germany and Italy). However, in response to globalisation pressures and trends in decentralisation, over time new paradigm regional policies have somewhat replaced and been added to traditional regional policies.

In other words, a programme-based and governance-focused approach has become the mainstream for regional policy. The scope of activities addressed by regional policy is broadened when new ways of stimulating economic growth are explored. Regional economies can be stimulated not only through specific infrastructure support but also through measures to promote entrepreneurship and innovation, education and training, culture and the environment. The aim is to exploit the potential of endogenous assets and local networks specific to the locality. Instead of simply reacting to existing problems, regional policies have become more pro-active and forward-looking. Today, in most OECD member countries, regional policies are no longer solely preoccupied with the challenges facing declining regions but with growth potential based on regional assets across all regions as well.

The widening thematic coverage and focus of regional assets necessitated an improved governance structure between levels of government as well as across sectors. In Denmark, the new approach, centred on the Regional Growth Forum, integrates local, regional, national and EU development activities within a single, programme-based

policy structure. Peaks in the Delta Programmes of the Netherlands support policy co-ordination across sectors as well as between national and sub-national governments. The Regional Growth Policy of Sweden aims to improve local and regional competitiveness across all regions via regional programmes and enhanced regional and sectoral co-ordination.

Urban/rural policy frameworks

Urban policy tends to have a less comprehensive framework than rural policy, although there are a few exceptions (Table 1.2). However, more and more countries recognise that cities are engines of growth and are taking the particular situation of cities and urban policies into account. For example, since 2009, the National Policy of Urban Development in Germany groups together several funding programmes which guarantee public infrastructure in urban areas for the purpose of strengthening urban structures and cities as motors of regional economy. Switzerland amended the Constitution in 2001 and embarked on the federal agglomeration policy in order to improve the amenities and competitiveness of urban centres and agglomerations.

Table 1.2. **Urban policy framework**

Czech Republic	Principles of Urban Policy (2007-13)
Finland	Urban Policy Committee, Government Decision in Principle on Urban Policy (2008)
France	Urban Social Cohesion Contracts, Strengthening and Simplifying Inter-Municipal Act, Urban Solidarity and Development Act
Germany	National Policy of Urban Development
Greece	Regulatory Plans for Urban Agglomerations
Luxembourg	Conventionalised informal agreements, National Information Unit for Urban Policy
Mexico	General Law of Human Settlements, Urban Development and Territory Organisation National Programme
Netherlands	National Urban Policy based on a block grant and five-year contracts (2005-09)
Norway	2007 White Paper on Capital Region, 2003 White Paper on greater cities in Norway
Portugal	POLIX XXI
Slovak Republic	Included in Slovakia Spatial Development Perspective (2001)
Sweden	National Programme for the Major Urban Areas (2006-09)
Switzerland	Federal Agglomeration Policy

In addition, some countries have well-developed frameworks for metropolitan governments. In Italy, the Legislative Decree 267/200 and the recent Law 42/2009 regulate the establishment of metropolitan cities (*città metropolitane*) to improve administrative co-ordination between big cities and smaller communes in their hinterland. In Turkey, larger municipalities have been created for metropolises like Istanbul or Izmir. There are 16 metropolitan municipalities covering several constituent municipalities. Metropolitan councils are an additional administrative layer used to co-ordinate the constituent municipalities. In other cases, capital cities or big cities are given special status and competences. For example, Vienna, the capital of Austria is given *Land* status. Brussels Capital Region (Belgium) has regional and provincial competences. Berlin, Bremen and Hamburg (Germany) are *Länder* in their own right, termed city-states.

Rural development has been on the agenda of OECD member country governments. Rural development policies are needed for at least three reasons. First, rural areas face significant challenges that undermine territorial cohesion within countries. The problem stems, in general, from a declining and ageing population and from the distance to markets and services. Second, rural areas often possess largely unused economic potential that could be better exploited and thus contribute to the well-being of rural citizens and to

overall national development. Third, neither sectoral policy nor market forces are able to fully account for the heterogeneity of the challenges and potential of rural regions to cope with positive and negative externalities (OECD, 2006a).

Some OECD member countries use innovative systems to integrate sectoral policies for rural development (Table 1.3). For example, the United Kingdom established the Department for Environment, Food and Rural Affairs in 2001 to broaden the focus of rural policy, to gather several rural functions under one department, and to oblige central government departments to implement a rural proofing mechanism through which policy design and implementation were systematically checked for their impact on rural areas. Canada invented a horizontal initiative called Canada's Rural Partnership (CRP), in which the federal government's Rural Secretariat develops partnerships amongst federal departments, provinces and rural stakeholders in areas such as knowledge building, policy development and the implementation of rural and remote development strategies. Its Rural Lens aims to promote awareness about the needs and conditions of rural communities, and to pre-assess and preview the impact of all federal policies, programmes and services on rural and remote areas. Spain established the Law on Sustainable Development of Rural Areas in 2007, which launched a broad inter-ministerial and multi-annual Sustainable Rural Development Programme, which combined several different budgets and created a "rural budget".

Table 1.3. **Rural policy framework**

Canada	Canada's Rural Partnership and Rural Lens
Chile	Strategy for Territorial Economic Development (2006-10)
Finland	Rural Policy Committee, Rural Policy Programme
France	National Plan for Rural Development, Law on Rural Revitalisation (2005), Rural Revitalisation Zone, Rural Poles of Excellence
Germany	Joint Task for the Improvement of Agricultural Structure and Coastal Protection and its Four-year Plan
Greece	Rural Development Law (2005)
Iceland	Four-year Development Plans with Growth Agreements and Cultural Agreements
Italy	National Strategic Plan for Rural Development and National Strategic Framework
Japan	Basic Plan on Food, Agriculture and Rural Development (2005)
Korea	Five-year Plan for Improving Rural Quality of Life (2010-14)
Mexico	Law on Sustainable Rural Development (2001), Special Concerted Rural Development Programme
Netherlands	Agenda for the Living Countryside (2004) based on a block grant and seven-year contracts (2007-13)
Norway	2009 White Paper on Regional Policy
Slovak Republic	Included in Slovakia Spatial Development Perspective (2001)
Spain	Law on Sustainable Development of Rural Areas (2007), Sustainable Rural Development Programme
Sweden	National Strategy for Rural Areas (2009)
Switzerland	Agricultural Law of 1999, Federal Network for Rural Development since 2006
Turkey	National Rural Development Strategy (2006)
United Kingdom	Rural White Paper (2000) and rural-proofing, Rural Strategy (2004), Law of National Environment and Rural Communications (2006)

Note: In all EU member countries, the National Strategic Plan (NSP) (and the Regional Rural Development Plans (RDPs) in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Spatial orientation

Reflecting the change of the general framework, regional policy in most countries now has an all-region focus, moving beyond the dichotomy between prosperous and depressed areas. The all-region focus reflects two different trends. First, devolution to the regional level has been progressing. All regions need to focus on their regional strengths and assets and develop unique strategies for regional development. Second, instead of

being devoted only to designated (lagging) areas, the central government's regional policy has been applied across all regions while allowing them to adapt it to their specific context. For example, though the regional development agencies of Canada have undertaken similar activities at a broader level, programming varies from region to region in order to be responsive to local conditions and address specific gaps.

On the other hand, the spatial orientation of regional policy remains significant, through the designation of regional aid areas, privileged funding flows to lagging areas, and specific spatial targeting (*e.g.* geographical types of regions, cross-boundary regions). From the earliest days of regional policy, specific areas have been designated for regional aid, normally reflecting socio-economic, demographic and/or geographic disadvantages. While the coverage of such areas has been reduced over time and regional aid has declined as a consequence, they remain an important element of regional policy. In addition, many countries adopt a fiscal equalisation system, which favours disadvantaged regions. Rural areas continue to be highlighted in many countries: a peripheral areas focus in Denmark, Finland and Norway; a new national rural strategy in Sweden; designated zones in France; a new programme for low population density areas in Portugal.

In terms of funding flows, there is no clear sign to show the degree of spatial orientation. On the one hand, evidence from a wide range of countries shows that less developed regions are favoured. Examples include support for peripheral areas in Denmark, six-sevenths of GRW funding for the new *Länder* in Germany, concentrated support for *Mezzogiorno* in Italy, prioritised funding for the north in the Netherlands and northernmost regions in Sweden. In the United Kingdom, RDA funding is primarily needs-based. Funding allocation also favours weaker regions (especially the east) in Poland.

However, the current tendency of promoting innovation and competitiveness has gradually led to policy changes which promote urban areas and growth centres. Urban areas are also a policy focus in countries where the maintenance/development of territorial structure is a priority (*e.g.* Finland, Ireland and Norway). In such countries, the underlying goal is to support territorial cohesion via polycentric development, which is a broader spatial policy objective.

Policy tools that contribute to regional policy objectives[3]

Firms are dependent on the local environment in which they are located. To help firms develop and prosper, business environment support is necessary. There has been a move away from regional aid (income transfers to inhabitants of poorer regions, direct aid to individual firms) towards wider support for the business environment. This may include the availability of relevant skills, access to information, and access to network infrastructures.

In the past, aid was focused on bringing in foreign direct investment (FDI) and providing subsidised facilities for outside investors and/or for new firms. More recently, the focus has moved to making domestic firms more competitive, which has led to an interest in cluster policies and similar instruments to build co-operation and share knowledge among firms, particularly SMEs (regional innovation approach). Many recent changes in support for the business environment are innovation related. These include: the Centre of Expertise Programme in Finland and Norway, competitive poles in France, and some new programmes implemented by Economic Development Administrations of

the United States. Policies promote innovation in industries that are traditionally associated with urban areas (*e.g.* ICT, bio-technology and other scientific and medical industries). As a consequence, innovation policy has re-invigorated the idea of urban growth poles which are expected to endogenously develop their hinterland (*e.g.* France, Hungary and Portugal).

The provision of infrastructure (especially transport infrastructure) to promote economic development has long been an important element of regional policy,[4] especially in countries characterised by long distances and difficult topologies (*e.g.* Australia, Canada, Greece, Japan and the Nordic countries). This emphasis has continued under the new paradigm. The provision of targeted infrastructure in the form of industrial estates, science parks and technology centres has also been traditional in many countries (*e.g.* Belgium, the Netherlands).

Aid to designated areas based on geographic, demographic or socio-economic characteristics is also widely observed in OECD member countries. Norway has several target areas including social security concession areas, investment aid areas and the Action Zone of North Troms and Finnmark (North Norway). In Japan, designated areas such as depopulated areas, mountainous regions, snowy regions, and peninsula regions continue to receive special aid. In France, designating areas is based on potential as well as problem areas. In addition to the traditional designation of lagging areas such as industrial restructuring, mountains and coastal areas, competitiveness poles and rural excellence centres are designated for regional aid.

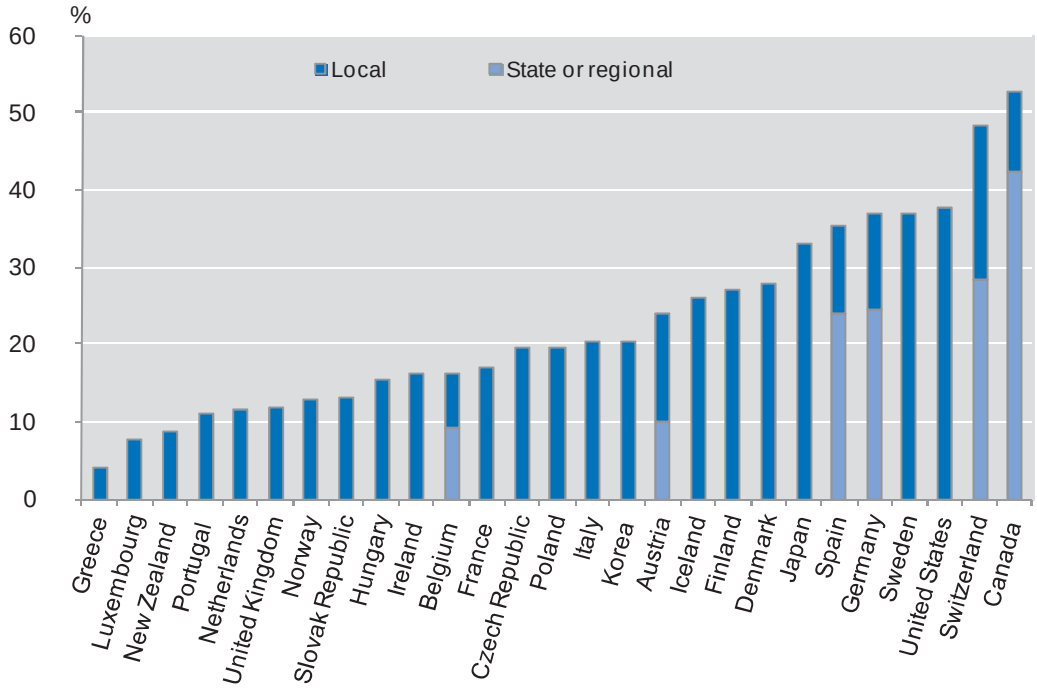
Budgets: system and size

It is difficult to draw a coherent comparison of regional policy budgets across OECD member countries due to the lack of a uniform definition of regional policy and data limitations linked with potential components of regional policy. No country reported an overall estimate of the regional policy budget. However, interesting initiatives help to understand the overall financial situation in some countries. Mexico groups together ministerial budgets for rural policies into an official rural budget based on the Law on Sustainable Rural Development. Spain has a similar system, combining a number of budgets and creating a rural budget according to the Law on Sustainable Development of Rural Areas. Block grants are based on a similar system, on a less limited scale. Examples include the Regional Development Special Account and the Block Grant of Korea, the Community Renovation Grant of Japan, and the Community Development Block Grant of the United States.

Control over financial resource allocation indicates the extent to which real power has been transferred to the regional level (Figure 1.3 and Table 1.A1.3). In most cases, especially among unitary countries, central government is still a significant source of funding for regional development. Heavy reliance on vertical financial transfers (*e.g.* grants, tax sharing), particularly those tied to specific policy determined by the centre, can constrain regions' freedom to allocate resources and steer regional policy. However, in some contexts, centrally controlled interventions may be the most efficient means of co-ordinating a range of development programmes, guaranteeing the strategic overview of interventions or limiting the scope for fragmentation, overlapping and complexity.

Figure 1.3. **Decentralisation of public revenue across OECD member countries, 2008**

Revenues in % of general government revenues



Notes:

Excluding transfers received from other levels of government and including tax-sharing arrangements.

2008 or latest year available: 2007 for Canada, Korea and New Zealand; 2006 for Japan, Switzerland and the United States.

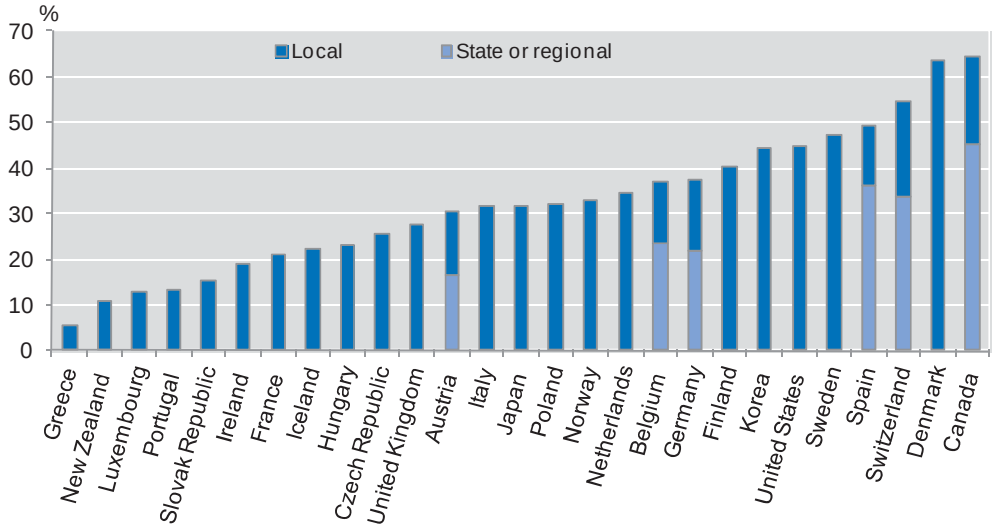
For the United States, no breakdown between state and local governments is available.

Source: *OECD National Accounts*; US Bureau of Economic Analysis.

Another dimension is the promotion of the sub-regional level in regional policy delivery in many countries (Figure 1.4 and Table 1.A1.3). Over the past decade, sub-national governments in OECD member countries have increased their share of total public spending on average by 1% annually. However, it should be noted that sub-national expenditure does not directly express the degree of decentralisation. Some expenses may accrue to local governments even though the decision-making power may lie at the central level (OECD, 2009b).

Figure 1.4. **Decentralisation of public spending across OECD member countries, 2008**

Spending in % of general government spending



Notes:

Excluding transfers paid to other levels of government.

2008 or latest year available: 2007 for Canada, Korea and New Zealand; 2006 for Japan, Switzerland and the United States.

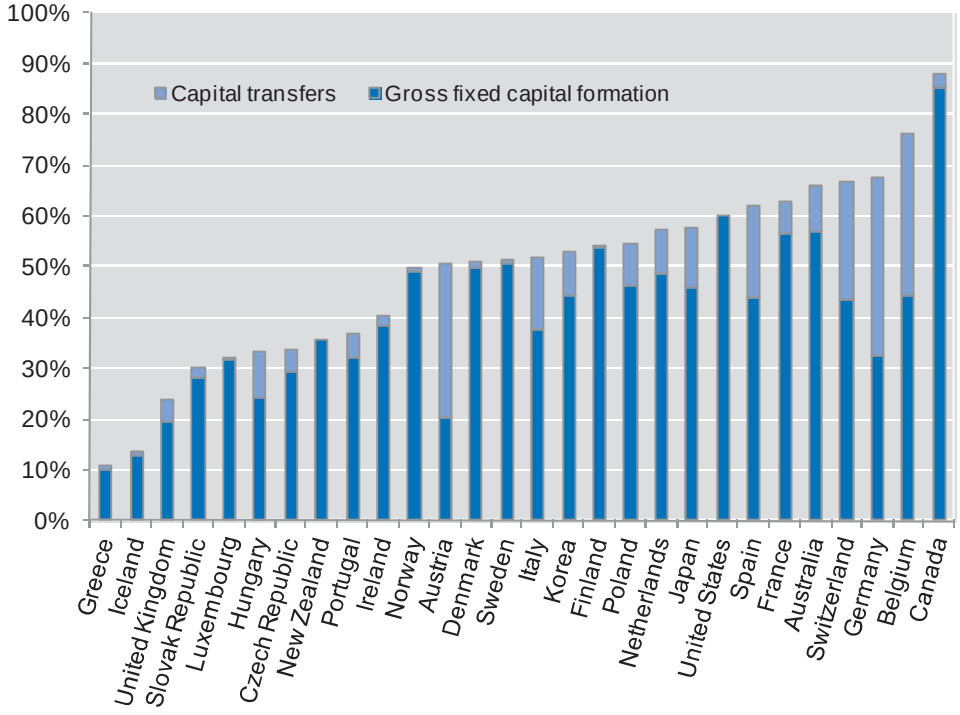
For the United States, no breakdown between state and local governments is available.

Source: *OECD National Accounts*; US Bureau of Economic Analysis.

Sub-national governments are responsible for carrying out approximately 65% of the public infrastructure investment in the OECD (measured by the gross fixed capital formation), which corresponds to 2.2% of GDP, and almost half of total capital expenditure (Figure 1.5). Sub-national government capital expenditures are mainly directed to economic affairs, education, environment and health. Together, these four sectors represent more than half of the total capital expenditures carried out by sub-national governments (OECD, 2009b).

Figure 1.5. **Decentralisation of public investment across OECD member countries, 2008**

Sub-national public investment in % of general government public investment



Notes:

2008 or latest year available: 2007 for Australia, Canada, Japan, Korea and New Zealand.

No data available for Chile, Mexico and Turkey.

Data for Finland, New Zealand and the United States only refer to gross fixed capital formation.

Source: *OECD General Government Accounts*.

1.3. Governance

Role of central government and horizontal governance at the central level

Traditional regional policy models targeted particular sectors in specific territories. This meant that levels of government could function in a relatively segregated way. However, the territorial expansion of regional policy to all regions has promoted the introduction of new co-ordination approaches that encompass a wide range of socio-economic contexts. Regional development challenges are broader, encompassing issues that cross sectoral and administrative boundaries. The process of regionalisation has also encouraged the emergence of a variety of partners at the regional level with various resources, agendas, and legal or political standing. The general decentralisation trend in OECD member countries has increased the significance of sub-national governments. As a result, policy co-ordination underpins many recent changes.

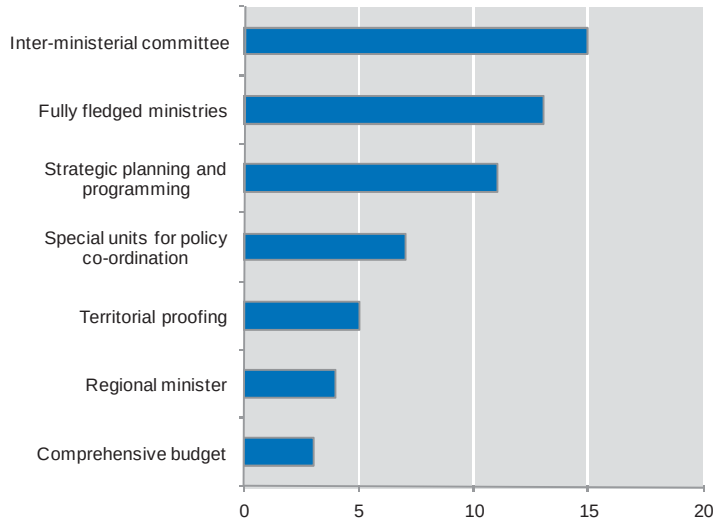
The role of the central government is being re-defined rather than diminished. Although in most cases the central government remains a significant source of funding and authority for regional development, the role of the central government in designing and delivering major regional development interventions is declining as regional policy systems are open to a broader range of participants. Instead, the role of the central government is increasingly important for providing an overarching framework for regional development policies. In other words, the centre is now responsible for drafting the framework or guidelines and overseeing co-ordination mechanisms within which regional policy can be formulated and implemented. In the EU, the role of central governments as strategic players has increased, as they must design National Strategic Reference Frameworks (NSRF) which are strategic guidelines for the use of EU Structural Funds that all regions have to follow. National ministries and agencies increasingly act as "co-ordinators and partners" in regional development. The following central government roles have emerged under the new paradigm of regional development policies:

- Facilitate consensus-building and coherence between regions and sectors including defining objectives, time frames and spatial horizons;
- Gather and analyse appropriate data and information and co-ordinate discussions and databases concerning needs and opportunities: facilitating dialogue among policy makers;
- Develop legal, fiscal and administrative frameworks: frameworks or "grand rules" which manage the complexity, plurality, and tangled hierarchy characteristic of most modes of co-ordination;
- Serve as a "court of appeal" for disputes among sectors and regions: including taking political responsibility for the final decision, especially in the event of a governance failure;
- Seek to re-balance power differentials among sectors, regions, and levels of governments: for the proper functioning of the overall governance system, the national government can and should help weaker entities establish capacity building strategies (including training provided by the central government);
- Evaluate and monitor policy results: closing information gaps and improving the quality of decision making by actors at all levels of government.

The expansion of regional policy coverage requires the co-ordination of a broader range of national government departments whose activities are now recognised as having an impact on regional development. The value of horizontal governance has been highlighted by the increasing recognition of interdependencies and interactions between different policy areas. Sectoral policies can be compartmentalised and guided by narrow objectives which may not take the broader policy context into account. Horizontal governance can potentially improve resource allocation and service delivery by facilitating more integrated approaches to policy administration. Different mechanisms for strengthening national level co-ordination are taken across OECD member countries (Figure 1.6, Tables 1.A1.4 and 1.A1.5).

Figure 1.6. **Horizontal governance mechanisms**

Policy co-ordination at the central level (number of countries)



Notes:

Some countries adopt more than one mechanism.

Other than those mentioned, all EU countries have a strategic programming system.

- **Creation of co-ordinating structures such as inter-ministerial committees and commissions.** This is one of the simplest systems for horizontal governance as it is based on the existing government structure. Experience from OECD member countries indicates that a horizontal commission which is chaired by one sectoral ministry may be limited in pursuing multi-sectoral objectives and hinder full involvement of other ministries. The OECD promotes alternating the chairmanship among participating ministries, or meta-ministerial leadership. The higher the leadership within these types of commissions, the stronger the incentives are to participate and the greater the engagement of the different actors (*e.g.* Prime Minister being a chair) (OECD, 2007a, 2009c). Examples of this type of co-ordination include the Ministerial Committee for Regional Policy in Denmark, the Presidential Committee on Regional Development in Korea, and the Cabinet Sub-committee on Rural and Regional Policy in Norway.
- **Establishment or restructuring of ministries and departments to create fully fledged ministries with broad responsibilities and powers that encompass traditionally separate sectors.** Some positive implications of the concentration of different responsibilities within the same authority include: a more open and coherent view, the concentration of skills and the possibility for a more integrated approach. Specific ministries for regional development were created for example in Chile, the Czech Republic, Poland, the Slovak Republic and Slovenia. In Australia, the Department of Infrastructure, Transport, Regional Development and Local Government has a wide range of responsibilities related to regional development policy. In Finland, the main responsibility for regional development was transferred from the Ministry of Interior to the newly created Ministry of

Employment and Economy, merging the units for regional development from the Ministries of Trade and Industry, Labour, and the Interior. The Department for Environment, Food and Rural Affairs in the United Kingdom was created to broaden the focus of rural policy and to gather several rural functions in one department.

- **Strategic planning and programming, including agreements, frameworks and instruments.** The formulation and implementation of national regional policy programmes and/or spatial planning can provide the impetus and framework for greater central co-ordination and is widely used across OECD member countries. Planning and programming have been recognised as policy tools for regional competitiveness policies, not only as welfare-supporting tools mainly orientated towards the delivery of social services. In many countries, spatial planning is gradually moving from land-use regulation frameworks towards long-term strategic documents, focusing on the co-ordination of diverse issues and interests across sectors as well as between levels of government and often incorporates monitoring, feedback and revision mechanisms (OECD, 2007b). Examples include the National Strategic Reference Framework in EU countries, the National Spatial Strategy in Japan, and the Comprehensive National Territorial Plan in Korea.

- **Establishment of special units or agencies that provide planning and advisory support to help ensure policy coherence across sectors at the central level.** High-level "special units" have been created in several countries to ensure consistency among sectors. The closer such units or co-ordinators are to a chief executive, the greater the incentives are for co-operation across sectoral ministries. Examples include DATAR which is directly linked to the Office of the Prime Minister in France and the Austrian Conference on Spatial Planning (ÖROK) under the auspices of the Federal Chancellery. Special units under sectoral ministries include, for example, the National and Regional Planning Bureau of the Ministry of Land, Infrastructure, Transport and Tourism in Japan and the Spatial Economic Policy Directorate of the Ministry of Economic Affairs in the Netherlands.

- **Regional ministers.** Ministers must take into consideration the territorial aspects of the programmes and policies of their portfolios. For example, Canada, given the size of the country, has a convention of "regional ministers", *i.e.* appointing ministers who have regional responsibilities and represent the interests of their respective regions. Ministers combine their regular (sectoral) portfolio duties with their regional political roles. France and the Netherlands have appointed a minister who represents the interest of the leading region in the country, *i.e.* the State Secretary for the development of the Capital Region of Paris and the Minister for Randstad.

- **Territorial proofing mechanisms.** Territorial proofing is a mechanism that monitors government policies to prevent them from having a negative impact on certain types of territories. It is important to note that if the proofing is not implemented in the early stages of the policy designing process, the opportunity for influencing policy decisions might be drastically diminished. In addition to the rural proofing system of the United Kingdom and Canada, Korea recently introduced a rural proofing mechanism. In Finland, the Ministry of Employment and Economy has required sectoral policy makers to clarify their regional

strategies and assesses regional impacts (regional proofing) since 2004. Ten key sector ministries must define regional development plans concerning their field of responsibility, which fit into the Regional Development Act guidelines defined by law and the nine regional development targets adopted by the government in 2004.

- **Combining financing and/or creating a consistent and comprehensive budget.** Integrating financial tools improves transparency and synergy across sectors. Mexico grouped together ministerial budgets for rural policies into an official rural budget under the Special Concerted Rural Development Programme (PEC). Korea transformed many specific-purpose national grants into general grants, and established the Regional Development Special Account. The Block Grant was then adopted to give local municipalities the authority to autonomously design projects.

Co-ordination of regional development policies at the central level is a challenging issue and most countries lack strong central authorities in charge of arbitration among the different line ministries. In addition, while co-ordinating bodies are an important tool, decision-making power remains principally in the hands of the sectoral ministries that implement policies. As such, while planning is more or less well integrated, implementation is potentially compartmentalised. The provision of a legal framework for joint planning and policy action by itself has not led to substantial collaboration across jurisdictions. Sometimes the integrated plan is just an inventory of programmes rather than a tool to exploit synergies between programmes. To overcome problems related to sectoral implementation, and in line with the increasing importance accorded to regional development policies, inter-ministerial co-ordination bodies have sometimes been given responsibility for implementing policies (*e.g.* DATAR in France). Fiscal regimes and co-operative culture also need to be addressed.

Vertical governance: multi-level governance between national and sub-national levels

The relationship between levels of government (multi-level governance) is characterised by mutual dependence, since a complete separation of policy responsibilities and outcomes among levels of government is not possible: executing tasks, overcoming obstacles, and/or accomplishing objectives requires co-ordination among government actors. A functional combination of the strengths of national, regional and local governments calls for multi-level governance arrangements which aim at sharing responsibilities, authorities, skills and resources. It can be simultaneously vertical (across different levels of government) and horizontal (among the same level of government), as the lines of communication and co-ordination for a given policy objective may criss-cross, involving multiple actors and stakeholders in the public as well as the private sector and citizenry (OECD, 2009a).

When managing relations across levels of government, public actors at all levels are confronted with gaps (Box 1.1). These gaps, resulting from the fact that one level of government depends on another – either for information, skills, resources, or competences – can exist vertically and horizontally. Minding these gaps represents one of the primary challenges of multi-level governance. Countries may experience each gap to a greater or lesser degree, but given the mutual dependence that arises from decentralisation, and the network-like dynamic of multi-level governance relations, countries are likely to face them simultaneously (Charbit and Michalun, 2009).

Box 1.1. **Five gaps that challenge multi-level governance**

There are five dominant gaps that challenge multi-level governance: information, capacity, fiscal, administrative, and policy gaps.

- The *information gap:* characterised by information asymmetries between levels of government when designing, implementing and delivering public policy.
- The *capacity gap:* created when there is a lack of human, knowledge (skill-based), or infrastructural resources available to carry out tasks, regardless of the level of government.
- The *fiscal gap:* represented by the difference between sub-national revenues and the required expenditures for sub-national authorities to meet their responsibilities. It indicates a direct dependence on higher levels of government for funding and for fiscal capacity to meet obligations.
- The *administrative gap:* arises when administrative borders do not correspond to functional economic areas at the sub-national level.
- The *policy gap:* results when ministries take purely vertical approaches to cross-sectoral policy (*e.g.* energy policy, water policy, youth policy, etc.).

Source: Charbit, C. and M. Michalun (2009), "Mind the Gaps: Managing Mutual Dependence in Relations among Levels of Government", *OECD Working Papers on Public Governance*, No. 14, OECD Publishing, Paris, DOI:10.1787/221253707200.

OECD member countries develop and use a broad set of mechanisms to help bridge information, capacity, fiscal, administrative and policy gaps; to improve the coherence of multi-level policy making; and to reduce disparities that arise from the allocation of tasks and resources (Figure 1.7 and Tables 1.A1.6 and 1.A1.7). These mechanisms, which range in form from "binding" to "soft," are not only relevant to multi-level governance in a broad or theoretical context but also to practical cases in specific public management domains. Their successful application depends on, and simultaneously promotes, communication and dialogue among levels of government; an alignment of interests and timing; and transparency and accountability.

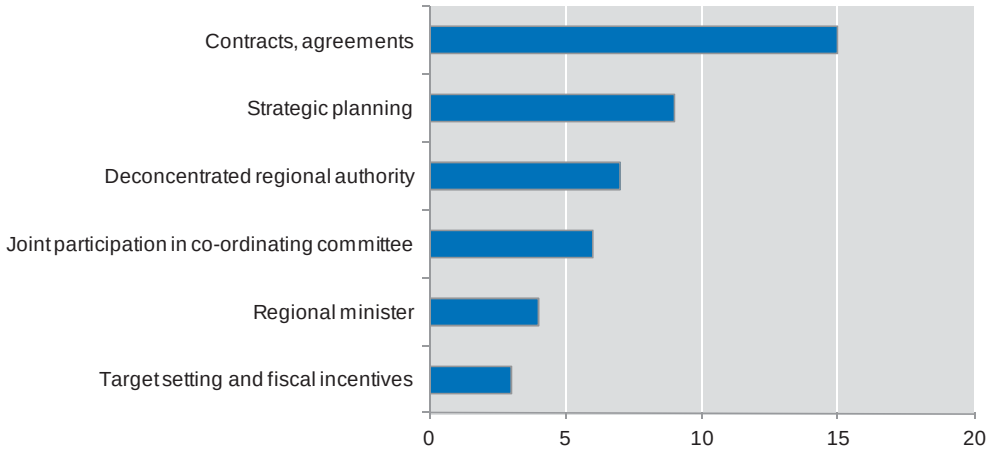
- **Negotiating contracts or agreements to commit delivery bodies to shared sets of targets.**[5] National-regional contracts or other less formal agreements serve to ensure that national-level policy decisions and regional priorities cohere and "synergetically" contribute to national development targets. These often involve agreements on budgetary commitments or joint financing arrangements. Examples include the State-Region Project Contract in France, institutional agreements and Framework Programme agreements in Italy and the Regional Contract in Poland. Contracts are often more flexible than grants given the opportunity for negotiation on a much wider range of terms. The flexibility of contracts allows sub-national governments to adapt to local preferences and idiosyncrasies. Challenges with contracts that have been observed across OECD member countries include high transaction costs, a power bias towards upper level governments or insufficient evaluation procedures to ensure compliance by all parties. In some countries there tends to be proliferated use of contracts, which may complicate governance (OECD, 2007c). For example, in France the *Cour des Comptes* pointed out that the large number of different types of contracts

(*e.g.* urban, city, agglomeration, metropolitan, and state-region) have made the entire system highly complex and less accountable.

Figure 1.7. **Vertical governance mechanisms**

(number of countries)

Multi-level governance between national and sub-national levels



Notes: Some countries adopt more than one mechanism.

- **Delegating power to sub-national levels within the context of national frameworks and planning systems.** In countries with traditionally centralised administrative models, processes of "co-ordinated regionalisation" are apparent. These processes stress the submission of regional plans to national targets or regulatory guidelines. The Japanese spatial planning system requires regional spatial strategies to be in conformity with the national strategy. In Hungary, the National Spatial Development Concept defines long-term overall spatial development objectives and gives spatial guidelines for the elaboration of regional programmes. Regional development agencies in England must take central government policy objectives into account and meet performance targets set by the national government.
- **Deconcentration of national responsibilities to the sub-national level.** This often takes the form of regional development agencies. For example, in Canada, the federal government aimed at building strong, effective regional development agencies (RDAs) with senior officials as engaged and attuned as possible with regional realities. This guiding principle required greater co-ordination and accessibility between the federal government and regional actors. The high level of federal decision-making presence in the region fosters more direct collaboration and partnership with key public stakeholders. While the RDA's headquarters are in the region, they have offices in the national capital that play a role in monitoring and influencing the federal policy agenda. For example, if a national department is moving forward with a new policy or programme that will have an impact on economic development in the region, the RDA is mandated to ensure that their regional priorities and concerns are considered in the federal policy and decision-making process.

- **Joint participation in strategic co-ordinating committees and partnership groups.** The interests and inputs of key actors from different levels are co-ordinated through joint representation on administrative bodies. The shift in regional policy concerning strategic programming has provided a framework for co-ordinating committees and groups. Examples include the Regional Development Council in Australia, the Joint Task for the Improvement of Regional Economic Structure (GRW) in Germany and the Conference of Regional Presidents in Spain.
- **Regional minister.** The regional minister (see section on horizontal governance) also plays an important role for vertical governance connecting local interests and national politics, but this has not been adopted in many countries.
- **Target setting and fiscal incentives.** The objective is to encourage co-operation by attaching certain conditions (targets) to transfers. Upper-level government sets the rules of the game while targets are set mainly based on information from the grant-receiving government. Competition for funds is promoted and selected projects are co-financed. These projects are monitored and evaluated by participating governments. Care should be given that the grant-receiving government has an incentive to set easily achievable targets. For example, in Italy, for the period 2007-13, regional policy defines targets on the provision and quality of essential services (measured through 11 indicators) to be met in 2013 by the southern regions. Around EUR 3 billion are conditioned to the attainment of these targets. Incentives will be given to local governments in charge of delivering or managing services that improve their performance with respect to the indicators, within the framework of a formal incentive mechanism established by the region. The new scheme introduces competitive elements (monetary premium and reputational benchmarking) among the regions, while the regions collectively and consensually decide on the priority areas, targets, indicators and procedures.
- **Budgeting process.** As explained above, in Finland, key sectoral ministries must define regional development plans for their field of responsibility, which fit into the Regional Development Act guidelines defined by law and the nine regional development targets adopted by the government in 2004.
- **Central-regional programme team.** This is one of the most advanced types of vertical co-operation systems. In the Netherlands, the Spatial Economic Policy Directorate of the Ministry of Economic Affairs was reorganised along regional lines (rather than along sectoral lines) based on joint central-regional programme teams. At the same time, the five regional offices of the ministry were grouped together within the ministry and integrated into the new programme teams. Discussions at the regional level enabled a national vision to be born based on regional economic development potential, providing a framework to co-ordinate policy implementation in the regions. The involvement of regional peaks teams as programme secretariats and implementers at the regional level also enhances co-ordination, as does the active presence on each Programme Commission of a senior Ministry of Economic Affairs official.

Fragmented decision making and management at the central level creates serious problems at the sub-national level. Thus, often the measures which promote vertical governance also facilitate horizontal governance at the central level, and *vice versa*. For

example, in Italy, since 2004 the Institutional Agreement (*Intesa istituzionale di programma*) not only incorporates a horizontal co-operation mechanism but also facilitates negotiations between the regional and the national level on major public investments. This arrangement is codified at the national level by framework programme agreements (*Accordo di programma quadro*) wherein the central administration and regions set out, with local authorities and the private sector, the multi-annual intervention plan, which includes the main projects and activities, the necessary procedures, the division of responsibilities, the funding sources and the monitoring and evaluation systems.

Strengthened regional level

Regional level government between the national and local levels (more or less autonomous from the central government) has made the design and implementation of regional policy more significant (Tables 1.4 and 1.5).[6] Changing approaches to policy administration and shifts in regional policy objectives have contributed to the process of decentralisation and the increasing prominence of regional level governments. In the case of EU countries, this trend was strongly supported by the EU Structural Funds allocation system which is based on NUTS 2 regions.[7] For example, in the Czech Republic, the Constitution (1993) considers regions to be units of self-government. However, the establishment of regions was actualised by incentives of EU regional policy. Poland created 16 regions (*voivodships*) in 1999 in view of accession to the EU. Sweden also reinforced regionalised trends through the merging of counties in some pilot regions (Skane and Vastra Gotland) in 1999.

In some contexts, regionalisation also refers to the reconfiguration of sub-national (mainly local) administrative boundaries and capacities. Tensions of scale can exist between administrative structures and the functional areas in which different economic processes occur. The aim is to ensure that delivery frameworks have sufficient flexibility and capacity to adapt to the broadening regional policy agenda, address economic growth factors that can cut across organisational boundaries and administrative maps. A fragmented system may mean that institutions are unable to develop the critical mass to operate effectively. In some countries, administrative borders are being changed or up-scaled. For example, Denmark's structural reform of 2007 aimed at improving the performance of sub-national governments by increasing their size. This was achieved by a process under which municipalities were requested to co-operate with each other or to amalgamate in order to reach a population of a certain threshold. The resulting wave of municipal amalgamations reduced the number of municipalities from 271 to 98. At the regional level, the 16 existing counties were replaced by five regions. The rationale for this was that regional government should focus on the provision of public health services and it was necessary to increase the size of regional government units in order to increase their effectiveness.

Table 1.4. **Recent establishment and strengthening of decentralised regions**

Country	Name	Year	Elected membership	Fiscal power	Notes
Czech Republic	Regions (*kraje*)	Established in 2001	Yes	Yes, but limited	
Czech Republic	Cohesion regions	Established in 2007	No		Membership is elected by *Kraje* assemblies
Chile	Regions	Established in 1993	Yes (after 2010)		The intendant (head of the regional council) is appointed by the President
Denmark	Regions	Established in 2007	Yes	No	Grants come from the state and municipalities
Finland	Regions		No	No	Membership of the Regional Council is comprised of member municipalities. It is also financed by member municipalities
France	Regions	Strengthened in 2003-04	Yes	Yes	
Italy	Regions	Strengthened since the late 1990s	Yes	Yes	
Norway	Counties	Strengthened in 2004, 2010	Yes	Yes, but limited	
Poland	Regions	Established in 1999	Yes	Yes, but limited	
Slovak Republic	Regions	Established in 2002	Yes		
Spain	Regions	Strengthened in the 1980s-2000s	Yes	Yes	
Sweden	Regions/counties	Strengthened since 1997	Yes (partly)	Yes (partly)	Structure differs across regions
United Kingdom	–	Established in 1999	Yes	Yes	Except for England

Many options exist in terms of regional reform and countries' choices are very much determined by their institutional/administrative context. OECD member countries have developed a number of governance tools to adjust administrative regions to functional ones, from "soft" co-operation tools such as common discussion platforms, to agencies with specific co-ordination mandates in certain policy fields (such as transport), to the creation of new administrative regions. It should be noted that few countries have succeeded in creating new layers of government through the merger of existing administrative units. Denmark and the Czech Republic are among the few recent examples. France, Italy and Poland created new regions without suppressing lower administrative units (departments or provinces). Spain, Sweden and the United Kingdom used an interesting method called "asymmetric decentralisation" depending on the different needs, capacities and socio-cultural contexts across regions (Box 1.2).

Box 1.2. **Asymmetric decentralisation in OECD member countries**

To combine different degrees of decentralisation to the same territory, or to combine decentralisation and deconcentration, some countries have experimented with asymmetric decentralisation systems. There are in fact two types of asymmetrical arrangements: some arise from political reasons, to diffuse ethnic or regional tensions (this is the case in Spain and the United Kingdom), or from efficiency reasons in order to achieve better macroeconomic management and administrative cohesion to enable sub-national governments with differing capacities to exercise the full range of their functions and powers (in the case of Finland and Sweden). The former type, clearly driven by non-economic concerns, might for example be implemented bilaterally through a staged or contract approach under which units that met certain standards (size of budget, institutional development) might be granted greater autonomy than others. Alternatively, administrative asymmetry might be applied more generally in accordance with predetermined rules.

Asymmetric decentralisation for political reasons (*e.g.* Spain, United Kingdom): In Spain, the main financial, political and legislative competencies including economic development were transferred to the so-called autonomous communities (ACs – regional governments) in the early 1980s (1979-83). The devolution process has moved from asymmetrical decentralisation, that is, the devolved powers vary from one AC to another and within one AC over time, toward symmetric federalism in 1999. Navarra and the Basque communities still have tax powers beyond those of the other ACs. In the United Kingdom, the principles of devolved strategy making and policy delivery began in 1999 with Scottish and Welsh devolution. Directly elected assemblies have been set up in Scotland, Wales and Northern Ireland, and London has its own assembly and mayor. Changes in the eight regions of England outside of London have been more complex. Institutions differ from one region to the next.

Asymmetric decentralisation for efficiency reasons (*e.g.* Finland, Sweden): Since 1997, Sweden has introduced specific institutional arrangements for the regions of Västra Götaland (three counties including the city of Göteborg) and Skåne (two counties): the counties have been amalgamated and regional councils have been created. These councils are in charge not only of traditional county council tasks such as health care but also of regional and economic development programmes as well as investment in regional infrastructure normally dealt with by the County Administrative Board. The regional council is directly elected in Skåne and Västra Götaland. This experience of regionalisation was only supposed to be on a trial basis. The trial period was prolonged until 2010. The debate on regionalisation remains high on the political agenda in Sweden, as counties lack the critical mass to address regional development issues. By 2010, there were to be three county councils in charge of regional development, 12 counties with regional co-ordination boards indirectly elected, and five counties in which the county administrative board (national administration at regional level) remains in charge of the regional growth strategy. The experience of Skåne and Västra Götaland may be extended to the rest of the country in the next few years if a consensus is reached. Finland's experiment for the Kainuu region might be included in this category, albeit with a different spin. In Kainuu, one of the least developed regions in Finland, a pilot project has been implemented to transfer power and responsibility from the municipality to the regional government in order to improve the provision of services at reduced cost. The Joint Authority of the Kainnu region was established based on the Act on Kainnu Region Experiment and the experiment is planned to last until the end of 2012.

Box 1.2. **Asymmetric decentralisation in OECD member countries** (*continued*)

The results of such asymmetric decentralisation are difficult to assess since they can improve or worsen the efficiency and effectiveness of the public sector as a whole, the uniformity of service delivery or macroeconomic balance. More importantly, it may strengthen or weaken the allegiance of differentially treated communities to the nation state as a whole. The most important questions about asymmetrical decentralisation thus relate to its effect on the dynamics of political equilibrium, something which appears to be very context-dependent and thus it is not easy to make generalisations (Bird, 2003).

Source: OECD (2009), "Strategic Planning and Multi-level Governance in Greece", internal document.

Horizontal governance at the regional level: regional level strategic planning

An increasing number of countries have introduced regional level co-ordinating mechanisms for setting development goals, planning initiatives or allocating resources. Regional level strategic planning is gaining in popularity. In the European Union, the impact of EU Cohesion Policy on European countries is not only financial; it has empowered local and regional actors and strengthened their capacity to design and implement regional programmes and develop partnerships with private actors. The 2007-13 Cohesion Policy requires regions to set up regional development programmes.

There are many regional strategies developed by either decentralised or deconcentrated regions (Tables 1.5 and 1.6). Regional plans and regional strategies in Norway and regional development programmes and regional growth programmes in Sweden are examples from decentralised regions. The Regional Agenda for Productive Development in Chile and the Regional Spatial Plan in Portugal are examples from deconcentrated regions. Regional administrations can draw on more detailed information on their respective territories than central government, which assures more flexible and efficient planning; policies are considered across functional economic areas as well as administrative ones, to avoid the fragmentation of municipalities.

Spatial planning now has more coverage, rather than being limited to land use and physical investment. For example, the Japanese Regional Spatial Plan covers diverse issues such as land resources, coastal area management, disaster management, improvement of urban/rural areas, location of industries, infrastructure, culture, tourism, and environment. In Poland, comprehensive spatial planning that encompasses physical and socio-economic developments on a regional scale is currently being elaborated. According to the current draft, the main goal of the spatial management policy is effective use of the whole national space as well as its territorially diversified endogenous development potential which contribute to achieving the national development goals: growth, employment and cohesion over the long term.

In this process, spatial planning and economic planning are going to be integrated. The plans under the previous government in the United Kingdom aimed to create a framework of Integrated Regional Strategies (IRS, from 1 April 2010) in England, in order to align spatial and economic planning and strengthen the strategic programming role of regional development agencies. It increasingly aimed to utilise regional programming and policy instruments that support not only specific infrastructure or business aid provision but also diverse measures to promote spatial development,

innovation, urban development, education and training, housing and the environment. It aimed to introduce instruments to bring together various configurations of central, regional and sub-regional bodies to deliver policy in the context of functional economic areas and under a single programme, thus creating a more coherent regional strategic perspective.

Table 1.5. **Functions of decentralised regions**

Country	Name	Planning	Main functions other than economic development and planning
Czech Republic	Regions (*kraje*)		Social services, health care, regional transport
Czech Republic	Cohesion region		
Chile	Regions	Regional Development Strategy	
Denmark	Regions	Regional Development Plan, Business Development Strategy (Growth Forum)	Health care
Finland	Regions	Regional Plan, Regional Strategic Programme	EU fund management
France	Regions	Regional Territorial Planning Master Plan, Regional Economic Development Master Plan	
Italy	Regions		
Norway	Counties	Regional plans, regional strategies	Upper secondary schools, regional development including main roads, regional business development, broadband and regional R&D
Poland	Regions	Regional Spatial Development Plan (after 2010)	Health care, higher education, labour market policy
Slovak Republic	Regions	Economic and Social Development Plan, Spatial Plan	
Spain	Regions		Health care, education, public works, agriculture, tourism
Sweden	Regions/counties	Regional Development Programmes, Regional Growth Programmes	Health care
Switzerland	Cantons	Ten-year Spatial Development Plan, Four-year Implementation Programme for NRP	Education, health care

Increasing role of deconcentrated authority at the regional level

Deconcentration reforms (with sub-national representatives appointed by and accountable to the national government) should be carefully distinguished from decentralisation reforms (where local leadership is elected by and accountable to local citizens). The deconcentration of national functions to the regional level is underway in many OECD member countries (Table 1.6). Along with on-going decentralisation, some countries restructured deconcentrated agencies, tending to integrate multiple sectoral agencies. Considering the importance of these deconcentrated agencies for regional development, this restructuring is likely to have a profound impact on the way regional policy is carried out by the national government.

Finland established new ELY Centres (Centres for Economic Development, Transport and the Environment), who took over tasks formerly carried out by the Employment and Economic Development Centres, Regional Environmental Centres, Regional Road Administration as well as some of the tasks carried out by the State Provincial Offices. In Sweden, more efficient devolution requires better clarification of the role of governors as the main co-ordinators of national policies at the county (regional) level. The government appointed a committee in 2009 which has, among other

tasks, to make proposals on how to structure central government regional administration (to make roles of county administrative boards clearer, more co-ordinated and more appropriate. Its conclusions should be made available by December 2012). In addition, at the national level three implementation agencies – the Swedish Agency for Economic and Regional Growth (NUTEK), the Swedish National Rural Development Agency and the Swedish Institute for Growth Policy Studies – have been merged into two new agencies – the Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) and the Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*).

Some countries emphasise the role of regional development agencies for implementing national policies. The most pronounced example is Canada. Since the mid-1980s, regional development programmes have been delivered by deconcentrated federal regional development agencies (RDAs). The architecture between agencies and federal departments has been altered to accommodate more inter-sectoral programmes, to develop portfolio approaches and to promote relatively asymmetric territorial strategies. While some cutbacks were introduced in the federal regional budget in the 1990s, it nevertheless led to the transfer of several federal programmes to the agencies in recognition of their economic role. While in general many of the activities undertaken by the RDAs are similar (*e.g.* a focus on SMEs, reduced reliance on direct assistance to business, increased focus on innovation and community development), programming varies from region to region in order to respect local conditions and address specific gaps. They are expected to work with national, provincial and local agencies to optimise the impact of national economic development policies and programmes through the integrated and multi-sectoral management of federal programmes.

The more decentralised and deconcentrated a country is, the more important co-ordination between decentralised regions and deconcentrated regions is. Several countries have implemented decentralisation and deconcentration reforms hand in hand, as the two policies have complementary objectives. For example, in each Finnish region, a Regional Management Committee, a collaborative forum for the state's regional administration and the Regional Councils, reach a consensus on regional programmes and their implementation. In Chile, the Territorial Management Programme (GT) aims at promoting synergies and convergence among initiatives developed by various public institutions operating in the regions. Each public institution (including regional governments and deconcentrated public agencies) must develop an annual programme of work. This seeks to support the regionalisation and decentralisation process by strengthening the capacities of regional governments and improving the co-ordination process, as part of the national Management Improvement Programme. The Swedish government highlighted the need for improved co-ordination of central government agencies at the regional level, as both devolution and deconcentration reforms are inter-related. The government has appointed a committee which puts forth proposals to make the structure of central government regional administration clearer, more co-ordinated and more appropriate.

For spatial planning purposes, some countries delineated territories into multiple regions based mainly on functional logic. For example, in 2008, the Korean government divided the whole territory into five sub-economic blocs. Each of these regions, with a population of more than 5 million, constitutes two or three provinces (or provincial cities) which share similar historic, economic and social contexts. Luxembourg's development regions are purely functional bodies with no administrative powers. However, every commune of the region is primarily concerned with the development and implementation of regional plans. In Mexico, five meso-regions, which were created in 2002 by the

federal government to improve co-ordination between states and the sectoral ministries of the federal government (called *secretarias*), grouped several states mainly for infrastructure planning and overall economic development. Nowadays, although meso-regions do not have a legal basis, four of the five meso-regions utilise the Regional Trust Fund.

Table 1.6. **Deconcentrated regional authorities**

Country	Body	Year	
Deconcentrated regional authorities			
Canada	Regional development agencies	Mid-1980s	
Chile	Regional development agencies	2006-07	Regional Agenda for Productive Development
Finland	ELY centres	2010	
France	*Préfet*		Project for State Regional Strategy
Hungary	Regional Development Council	1996	
Norway	Innovation Norway, Research Council of Norway		
Portugal	Commission for Regional Co-ordination and Development	1979	Regional Spatial Plan
Sweden	County administrative boards (CAB)		Regional Growth Programme in certain regions
Turkey	Governorship		
Turkey	Regional development agencies	2006	
United Kingdom (England)	Regional development agencies	1999	Integrated Regional Strategy
Functional regions mainly with spatial and/or economic planning functions			
Germany	Planning regions		Sub-*Land* level
Japan	Regional Planning Council	2006	Regional Spatial Strategy
Korea	Economic Regions Development Committee	2008	Economic Regional Plans
Luxembourg	Development regions		Regional Plan
Mexico	Meso-region among states	2002	Regional Trust Fund
Netherlands	Regions	2004	Regional Peaks Programme
New Zealand	Regions (consolidated in 2007 from 26 to 14)		Regional Economic Development Strategy

Inter-municipal/intra-regional governance

With increasing mobility and the interdependency of economic activities, existing administrative jurisdictions (mainly municipalities, but sometimes upper-municipality levels) are often smaller than local governments think appropriate. The conventional justification for redefining local areas is the need to achieve economies of scale and critical mass and to account for territorial spillovers (externalities). These actors are redefining the boundaries of their territories based on factors such as shared economic characteristics, natural endowments and common identities. The expected results of this joint co-operation are different or higher quality services, rather than cost savings (OECD, 2009a, 2006b).

Discrepancies between administrative regions and functional regions have usually presented a greater challenge in metropolitan areas than in rural areas. The functional model of metropolitan governance has been promoted in many OECD member countries. It is based on governance at a functional economic area level and built around cross-sectoral competitiveness and competences in areas that have a metropolitan logic (*e.g.* transport, housing, investment promotion and tourism). Some decision-making power at the regional level is distinct and autonomous from either central, large regional or local government. It aims at achieving economies of scale generated by larger, unified service delivery areas, better cost equality and less social segregation across the entire

metropolitan region as well as more effective strategic planning and integration of sectoral policies. The metropolitan model also holds the promise of increasing the political power of the metropolitan region internationally and in relation to the central government.[8] On the other hand, rural areas also need to assure a minimum level of public services when faced with a decreasing population and the accompanying fiscal constraints. Inter-municipal co-operation is often promoted as a way to overcome this.

Other than establishing regional governments, many local governments in OECD countries have placed a greater emphasis on voluntary instruments for co-ordination and co-operation (Table 1.7). Managing inconsistencies between administrative and functional areas and keeping public services fair and at a reasonable level can be achieved through a spectrum of models depending on the scope of the intended reform.

Table 1.7. **Inter-municipal co-operation**

Inter-municipal co-operation	
Austria	Micro-regions (*e.g.* spatial planning, business promotion)
Canada	Special agencies, joint boards, commissions (*e.g.* public service such as hospitals)
Czech Republic	Micro-regions (*e.g.* education, social care, health, culture, environment, tourism)
Finland	Joint municipal boards (*e.g.* specialised health care, physical planning)
France	Inter-communal co-operation (EPCI), *pays (e.g.* economic, development, housing and urban planning, public services, environmental protection)
Germany	Planning regions (*e.g.* regional infrastructure, settlement structure)
Greece	Local Unions of Municipalities and Communities
Hungary	Micro-regions (*e.g.* regional development)
Norway	Inter-municipal co-operation
Portugal	Grouping of municipalities at NUTS 3 level
Spain	Communities of municipalities (*e.g.* water, waste disposal)
Sweden	Local federations, common committees (*e.g.* public services)
Switzerland	"Regions", *syndicats* (*e.g.* water treatment, public transport)
United Kingdom	Local and multi-area agreement
United States	Special district governments, economic development administrations
Metropolitan co-operation	
Finland	Regional Centre Programme
France	Agglomeration communities, urban communities
Korea	Metropolitan City Plan, Metropolitan Development Project Plan
Luxembourg	Conventionalised informal agreements
Mexico	Inter-municipal associations (*e.g.* water, sewage, public security, public transport) Metropolitan Commission of *Valle de Mexico* and its metropolitan trust fund
Netherlands	WGR Plus-regions
United Kingdom	Urban or city-region strategies

- **Establishment of regional/metropolitan governments:** functional models whereby governance structures are reshaped to fit or to approximate functional economic areas. In some cases the municipalities continue to exist whereas in others they are integrated and up-scaled (*e.g.* merger in Denmark, regional/metropolitan government in London [United Kingdom], Stuttgart [Germany] and Portland [United States]).
- **Amalgamation of municipalities:** often adopted to overcome the fragmentation of small municipalities without increasing additional layers of government. Municipal mergers are a way to enhance the efficiency of local governments. In Japan, the national government promoted municipal mergers with incentives. The number of local governments dropped from 3 232 in 1999 to 1 795 in March 2008. The primary motivations for the recent round of mergers were to:

further promote decentralisation, address demographic shifts (in particular the ageing population), encourage mobility and address serious fiscal constraints at the central and sub-national levels. Denmark's structural reform of 2007 aimed at improving the performance of sub-national governments by increasing their size. Municipalities were requested to co-operate with each other or to amalgamate in order to reach a population of at least 20 000 per local government unit. The resulting wave of municipal amalgamations reduced the number of municipalities from 271 to 98.

- **Establishment of special district governments or inter-municipal joint authorities for specific or multiple purposes*:*** a wide range of co-operative arrangements, most often on a voluntary basis, whose main functions generally include transport, urban planning or economic development. In the United States, special district governments are frequently created for geographic co-ordination on specific themes (*e.g.* education, transport and watershed) across municipalities, sometimes crossing state boundaries. Many are funded through special tax measures as well as fees and charges. The boards of such special districts are usually represented by the constituent municipal councils except for school boards which are generally directly elected. In Spain, the communities of municipalities (*mancomunidades de municipios*) operate as special districts across several local governments to deliver a specific public service such as water or waste disposal. Their success is due to their flexible organisation.

- **Platforms, associations or strategic planning partnerships:** informal co-ordination bodies, often relying on existing networks. For example, in the Czech Republic, Working Groups on Urban Development are organised to co-ordinate urban development.

- **Contracts, trade exchange of services (purely fiscal arrangements):** provision of service in return for compensation. The renowned example is Switzerland's inter-canton contracts (*concordats*) mainly for universities and hospital care services.

Co-operation models specifically tailored to urban areas are facilitated in some OECD member countries. In France, inter-municipal co-operation such as *communautés d'agglomération* and the *communautés urbaines* has been supported by powerful incentives such as tax revenue or inter-communal grants from the state and based on three laws passed in 1999: the Act on National Territorial Planning and Sustainable Development, the Act on Strengthening and Simplifying Inter-municipal Co-operation, and the Act on Urban Solidarity and Development. Since 1995 the Netherlands has a formalised structure of municipal co-operation called "city-regions", which are based on so-called joint Arrangements Act Plus (WGR plus-regions). The province officially determines the territory of the city-region, which consists of a large city and its surrounding municipalities that form part of the same urban system. In federal countries, even though there are not usually any systematic national frameworks to facilitate association at the metropolitan level, some interesting examples are reported in OECD (2006b) (*e.g.* Stuttgart Regional Association of Germany, Metro Portland in the United States, and the Montreal Metropolitan Community and Greater Vancouver Regional District in Canada).

Some countries have a general framework to facilitate inter-municipal co-operation regardless of measures taken at the municipal level. Finland's 2006 Framework Act for the Restructuring of Local Government and Services is an example. According to the act,

in order for a municipality to provide basic health care services, it should have at least 20 000 inhabitants, and 50 000 inhabitants in order to provide vocational education. The act establishes that municipalities may chose how they wish to meet these thresholds, either by: *i*) voluntary mergers with one or more neighbouring municipalities; *ii*) organisation of a joint municipal board with one or more neighbouring communities; or *iii*) purchasing services from larger municipalities. Mergers began in 2009 and the current financial incentive scheme runs until 2013. Norway amended the Local Government Act in 2006 to broaden the range of tasks that can be delegated from municipalities and county councils to inter-municipal co-operative bodies. A municipality can also delegate certain tasks and responsibilities for public service provision to another municipality (host municipality). Such co-operation between municipalities seldom leads to voluntary amalgamations. To promote amalgamations, the government offers incentives.

Evaluation and monitoring: efficiency and accountability

Issues of efficiency and accountability arise from the modification of regional policy design and delivery responsibilities across administrative tiers. The multi-level and horizontal governance system, which many agents use for co-ordination purposes, can create policy transparency and evaluation problems. Evaluation and monitoring are high on the policy agenda but have limited budgets. In most cases, the focus on evaluation is accompanied by strengthened arrangements for data collection and indicator systems. Evaluation and monitoring through indicator systems can reduce information asymmetries between levels of government and are a good way to share practices, help the central government transfer knowledge across sub-national authorities, and encourage better performance (OECD, 2009b).

For policies with an explicit equity focus, *ex post* evaluation of the progress made towards achieving clear targets is more straightforward. However, for economic development, the unit of analysis is an opportunity area where evaluation is particularly complex. *Ex ante* evaluation is fundamental for competitive grants and if the evaluation material is insufficient, it is difficult to make informed decisions. The evaluation and monitoring system must also be flexible so that policy makers can set loose objectives which can be adapted to varying contexts. It is preferable to separate resources earmarked for evaluation from operating funds as these funds should be returned if not used. The project funding request should identify how to maintain the monitoring system, particularly if the result of monitoring can be linked with sanctions and rewards.

Future directions

Some countries reported future directions of their regional policies (Table 1.8). New regional policy frameworks are under preparation in Austria, the Czech Republic and Poland. Decentralisation is further promoted in many countries including Chile, Finland, Greece and Hungary. Among them, strengthening the power of regional level authorities is often discussed. Accompanying the decentralisation trend, some countries are redefining the structure of central government and its deconcentrated agencies. A more dynamic change of the entire local government system is being considered in Korea and Luxembourg.

Table 1.8. **Future directions (under discussion)**

Framework of regional policy	Austria	Preparation for the new Spatial Development Concept
	Czech Republic	Preparation for the Framework Position of the Czech Republic for the period following 2013
	Finland	Amendment of the Regional Development Act (to improve horizontal and vertical policy co-ordination)
	New Zealand	Identification of nationally significant regional projects and strategies
	Poland	National Regional Development Strategy that includes new territorial contracts, identifies areas of strategic intervention and introduces more systematic sectoral programme co-ordination, National Spatial Strategy
	Slovak Republic	Establishment of the National Strategy for Regional Development, amendment of Slovakia Spatial Development Perspective 2001
	Switzerland	Reform of spatial planning including national concept making
	Turkey	National Strategy for Regional Development and low-scale regional plans
Decentralisation	Chile	Municipal reform, democratisation of regional councils, devolution to regional and municipal governments, capacity development of sub-national government
	Finland	ALKU administrative reform (transfer of responsibilities to Regional Councils)
	France	The 2009 Balladur Report on the reform of local authorities which aims to clarify the competences and financial responsibilities between administrative tiers, limit cross-financing, enhance the status of large municipalities (*métropoles*), and encourage inter-municipal co-operation
	Greece	KALLIKRATIS Plan, including the election of regional level governors and municipal mergers
	Hungary	Enhancing the role of regions
	Italy	Introduction of fiscal federalism
	Netherlands	Decentralisation to the provinces and municipalities including budget transfers and expanding local taxation, division of responsibilities between different levels of government
	Norway	Implementation of recently devolved power to counties
	Poland	Relationship between the state and regions, the financial basis of the regions, efficiency of county
	Spain	Decentralisation to increase autonomy of regions and municipalities
Administrative reform at the central level and national agencies	Belgium (Wallonia)	Review of agencies merger
	Ireland	Review of the structure and a remit of government departments and agencies
	Sweden	How to structure central government regional administration (co-ordination of decentralisation and deconcentration)
Local government system	Korea	Simplifying the three-tiered administrative structure, extending the size of administrative districts
	Luxembourg	Abolition of cantons and districts, introduction of urban communities
Others	Sweden	Reconsideration of the fiscal equalisation system

Conclusions and areas for future research: toward the development of policy indicators

In order to examine the reality of the paradigm shift of regional policies and the extent to which the paradigm has been implemented, it is important to understand the factors behind the rationale of each country's regional policy, its governance structure, and what objectives it sets out to achieve (OECD, 2007d). This publication provides answers to these questions by presenting a comparison of regional development policies across OECD member countries. This is the first time the OECD has undertaken a systematic collection of regional policy data. It will enable us to measure the degree to which regional policy frameworks have adopted a competitiveness focus. Of note is the

policy shift of European countries to the new paradigm, which has been supported by the new orientation of the Lisbon agenda. This systematic review of country strategies for regional development policy should be regularly updated and further elaborated.

Furthermore, in the future, a set of policy indicators could be developed and monitored which could be used in decision-making processes. Relationships should be analysed, for example coherency between policy objectives and policy tools. We must ask ourselves: what issues should be considered when establishing indicator systems and improving them over time? The main points to be discussed should be:

- Objectives of the monitoring system: to facilitate the transfer of knowledge and improve the performance of regional development policy.
- Values that a set of indicators promote: which values should be promoted by constructing the indicators? Should it be in conformity with the new regional policy paradigm and its different dimensions (*e.g.* place-based approach, coherency between objectives and policy tools, proactive programmatic approach)?
- Information collection method: it should include country profiles and questionnaires to make the quantification of qualitative information less subjective.
- Choice of indicators: which indicators should be integrated? How should missing information be treated in the country profiles? It would be useful to begin with a smaller, less complex set of indicators that can serve as a basis and be adjusted or expanded in a subsequent phase. Considering the diversity of national contexts, a core of standardised comparable indicators could be supplemented by country-specific indicators (*e.g.* federal or unitary).
- Aggregation: how should the indicators be aggregated? Which weight should be assigned to each indicator?

On an experimental basis, two sets of indicators could be compiled: policy indicators (in narrow terms) and institutional indicators.

Policy indicators: to what extent have countries implemented policies and programmes in line with the new paradigm?

- Problem recognition and objectives:
  - What are the regional problems or challenges? Does the country include competitiveness among these challenges?
  - What are the main objectives of regional policy? Does the country include competitiveness or endogenous development in these objectives?
- Policy tools:
  - Is a programming approach taken?
  - Is a place-based approach taken (existence or absence of metropolitan policy, rural policy, potential area policy [*e.g.* growth poles] and sparse area policy, etc.)? How can countries combine place-based policies for competitiveness and equity objectives?

Institutional indicators: has the country used initiatives to promote a comprehensive, cross-sectoral approach to regional development policy?

- Governance:
  - How many mechanisms does the country use for achieving horizontal governance? Which ones?
  - How many mechanisms does the country use for achieving vertical governance? Which ones?
  - Does the country have a regional level strategy designed by a decentralised authority or deconcentrated authority?
  - How many mechanisms does the country use for inter-municipal co-operation? Which ones?
- Financial aspects:
  - Is the country's sub-national revenue more than the OECD average?
  - Is the country's sub-national investment (or spending) more than the OECD average?

It is important to differentiate rhetoric from actual policy implementation. As suggested in this chapter, many countries have adopted the paradigm shift in their policy objectives, but its implementation remains challenging. In some cases, changes of policy objectives have not been accompanied by changes in policy instruments. For example, the existence of an inter-ministerial committee cannot be directly translated into comprehensive cross-sectoral policy making. Another important issue is the link between policy indicators and performance indicators. How can we best link robust statistical information for monitoring regional economies collected from the OECD series *Regions at a Glance* to policy indicators?

Notes

1. Slovenia is not included in the analysis in Chapter 1 as it only very recently became an OECD member (on 21 July 2010).

2. Globalisation has put pressure on each region to examine their level of competitiveness. Decentralisation has fostered increasing regional inputs and responsibility for regional economic development. Budget constraints have required more efficient public expenditure and better co-ordinated policy approaches.

3. Though not a regional policy *per se*, fiscal equalisation systems also play an important role in many countries. Fiscal equalisation is a transfer of fiscal resources across jurisdictions with the aim of offsetting differences in revenue-raising capacity or public service costs. Their principal objective is to allow sub-national governments to provide citizens with equivalent public services at a similar tax burden even if income differs across areas (Charbit and Michalun, 2009).

4. Though mentioned here with reference to business environment support, it is important to note that infrastructure is not just a tool for improving business environment. It is very often a basic public action for building access to public services (for citizens and firms). As such, public investment is a strategic tool for both objectives: equity and competitiveness.

5. A contract refers to bilateral agreements between central and sub-national governments concerning their mutual obligations, *i.e.* the assignment of decisionary powers, the distribution of contributions (including financial commitments) and mechanisms to enforce the contract. The OECD has developed an approach for assessing their efficiency based on the distinction between transactional and relational types of contracts (OECD, 2007c).

6. It must be noted that the effective functioning of regional authorities requires a degree of maturity in democracy and multi-level governance arrangements.

7. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

8. The counter-argument is that the metropolitan model effectively dampens competition and public choice and undermines principles of local democracy without producing any significant gains in terms of expenditure or service quality. The number of functional regions within any given area depending on the activity must also be taken into consideration.

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ANNEX 1.A1

Original Data

Table 1.A1.1. **Problem recognition**

Regional problems	Number of countries	Country	Country examples
Inter-regional disparities	20	Belgium	Inter-regional disparities between the three regions
		Canada	Regional disparities
		Chile	Regional disparities
		Czech Republic	Increase of intra-regional and inter-regional disparities
		Finland	Remaining regional disparities
		Germany	Ongoing regional disparities between old and new *Länder*, ongoing disparities of living standards within old and new *Länder*
		Greece	Severe regional disparities at inter-regional and intra-regional levels
		Hungary	Regional disparities between east and west
		Ireland	Persisting regional disparities and urban-rural disparities
		Italy	Regional disparities between the north and the south
		Japan	Regional disparities (mono-axis spatial structure)
		Korea	Regional disparities
		Luxembourg	Centralisation of economic activities in the centre of the country
		Mexico	Regional disparities and lack of competitiveness
		Poland	Increasing intra-regional (urban-rural) and inter-regional (west-east) disparities
		Portugal	Regional disparities in terms of competitiveness conditions
		Slovak Republic	West-east regional disparities, polarised economic growth, social inclusion
		Spain	Regional disparities and gap with the EU average
		Turkey	Regional disparities across rural and urban areas and across regions
		United Kingdom	On-going inter-regional and intra-regional disparities
Decline of distressed areas (*e.g.* old industrial sites, rural areas)	9	Belgium	Decline of industrial areas (Wallonia)
		Denmark	A number of relatively remote and geographically scattered pockets of underperformance
		France	Restructuring of rural and old industrial areas
		Norway	Many declining low-density rural and peripheral areas
		Portugal	Declining low-density rural areas
		Sweden	Urban-rural linkages and diversification of rural economy
		Switzerland	Peripheral area challenges
		United Kingdom	Urban deprivation
		United States	Distressed communities and regions
Insufficient economic competitiveness	8	Belgium	Insufficient entrepreneurship, creativity and jobs creation (Flanders)
		Canada	Growing regional competitiveness needs
		France	Increase overall competitiveness
		Korea	Lack of competitiveness
		Mexico	Regional disparities and lack of competitiveness
		Netherlands	Reduced growth performance
		Poland	Under-utilised endogenous potential of the regions and lack of efficient mechanisms to diffuse growth from cities (metropolitan areas) to rural areas
		Portugal	Regional disparities in terms of competitiveness

Regional problems	Number of countries	Country	Country examples
Urban-rural divide, urban-periphery divide	6	Austria	Urban-periphery disparities
		Canada	Urban-rural divide
		Hungary	Urban rural disparities, severe peripheries
		Ireland	Persisting regional disparities and urban-rural disparities
		Poland	Increasing intra-regional (urban-rural) and inter-regional (west-east) disparities
		Turkey	Regional disparities across rural and urban areas and across regions
Development gap with EU average	5	Czech Republic	Development gap with the EU average
		Greece	Development gap of the entire country with the EU average
		Hungary	Development gap with the EU average
		Spain	Regional disparities and gap with the EU average
		Turkey	Regional disparities across rural and urban areas and across regions
Intra-regional disparities	4	Czech Republic	Increase of intra-regional and inter-regional disparities
		France	Sub-regional disparities
		Greece	Severe regional disparities at inter-regional and intra-regional levels
		United Kingdom	On-going inter-regional and intra-regional disparities
Mono-sectoral economic structure	3	Chile	Dependence on few sectors located in limited regions
		Luxembourg	Lack of economic diversification
		Norway	Mono-sectoral economic structure in many areas
Depopulation and the impact on regions (especially in peripheries)	3	Iceland	Depopulation of areas outside of the Capital Region
		Japan	Ageing society, decreasing population and the impact on regions
		Norway	Sparse population across much of the country, population decreasing in rural and peripheral areas
Ageing society and the impact on regions	3	Finland	Ageing society and the impact on regions
		Japan	Ageing society, decreasing population and the impact on regions
		Sweden	Ageing society and the impact on regions
Environmental and climate change	2	Japan	Response to global scale environmental problems
		Sweden	Climate change issues
Equal provision of local public services	2	Norway	Tax revenue disparities and cost differences in public service provision across municipalities and counties
		Sweden	Maintaining an equal level of local public services across the country
Urban-rural linkages	2	Poland	Under-utilised endogenous potential of the regions and lack of efficient mechanisms to diffuse growth from cities (metropolitan areas) to rural areas
		Sweden	Urban-rural linkages and diversification of rural economy
Mono-centric town structure	1	Hungary	Mono-centric town structure
Cross-border issue	1	Luxembourg	Cross-border traffic congestion
Urban sprawl	1	Luxembourg	Rural municipalities which are recently experiencing substantial ex-urban development
Regional incapacity	1	New Zealand	Regions are not always able to achieve the necessary strategic, outward focus (without support from the central government) because of the difficulty of bringing together a wide range of diverse actors
Accessibility	1	Norway	Accessibility: long distances and weather exposed transport; lack of proximity to larger labour markets and services in peripheral areas
Underutilised potential of communities	1	Australia	Maximising community economic and social development given a range of challenges including long term demographic and structural changes, environmental constraints, globalisation and significant economic and social diversity within and between Australia's regions

Note: Some countries gave more than one answer.

Table 1.A1.2. **Objectives of regional development policy**

Objectives	Number of countries	Country	Concrete description of regional development policies
Regional economic competitiveness	25	Austria	Increase regional economic competitiveness
		Belgium	Focus on economic dynamism in Flanders, shift towards higher value-added activities in Wallonia
		Canada	Promote endogenous regional growth, competitiveness and prosperity in all regions
		Chile	Regional competitiveness
		Czech Republic	Increase competitiveness, especially reducing the gap with the EU average
		Denmark	Focus on competitiveness in the Business Development Act
		Finland	Improve regional competitiveness
		France	Develop attractiveness and competitiveness through regional potential development
		Greece	Expand country's growth potential
		Hungary	Improve territorial competitiveness
		Italy	Promote key factors of growth in all regions
		Korea	Establish economic regions, regional development based on specialisation
		Luxembourg	Increase competitiveness
		Mexico	Regional balance, competitiveness and regional cohesion
		Netherlands	Stimulate economic growth in all regions
		New Zealand	Improve regional business environment
		Norway	Utilise untapped resources all over the country and improve regional competitiveness
		Poland	Create conditions for improving the competitiveness of all regions, so as to promote regional cohesion and balance
		Portugal	Competitive, integrated and open economy
		Slovak Republic	Efficiency, based on innovation and competitiveness index
		Spain	Increase competitiveness of all regions
		Sweden	Dynamic development in all areas of the country with greater local and regional competitiveness
		Switzerland	Increase the competitiveness of the regions and value-added of the rural, mountainous and border regions
		United Kingdom	Target the key drivers of productivity in all regions
		United States	Regional competitiveness, clusters, innovation, and sustainable development is an approach for some newer programmes

Table 1.A1.2. **Objectives of regional development policy** (*continued*)

Objectives	Number of countries	Country	Concrete description of regional development policies
Reduce inter-regional disparities (or achieve territorial cohesion)	18	Canada	Reduce regional disparities and provide equal opportunities and basic public services across regions
		Chile	Greater equity
		Czech Republic	Reduce regional disparities; achieve balanced, harmonised and sustainable regional development
		Denmark	Reduce differences between regions
		Finland	Reduce regional disparities
		France	Preserve territorial cohesion
		Germany	Uniformity of living standards
		Greece	Reduce inter- and intra-regional disparities, achieve territorial cohesion
		Iceland	Minimise regional disparities, avoid regional depopulation
		Ireland	Achieve a better balance between regions
		Italy	Achieve socio-economic rebalancing
		Luxembourg	Preserve territorial cohesion
		Mexico	Regional balance, competitiveness and regional cohesion
		Norway	Provide equal living conditions across the country
		Poland	Create conditions for improving the competitiveness of all regions, so as to promote regional cohesion and balance
		Portugal	Equitable territory
		Slovak Republic	Equity, higher living standards based on cohesion index
		Spain	Fair and adequate level of economic equilibrium across regions
Endogenous, (balanced) and sustainable development	7	Australia	Regional communities improving their economic, social, cultural and environmental well-being by fully developing regional potential through the delivery of better services for communities, investing in economic and social infrastructure, and promoting innovation for industries to help them grow, adapt and prosper
		Austria	Growth that contributes to balanced and sustainable development
		Czech Republic	Reduce regional disparities; achieve balanced, harmonised and sustainable regional development
		Ireland	Ensure designated gateway regions maximise their potential for socio-economic development
		Japan	Growth of regional blocs based on regional assets
		Norway	Develop regional strengths and utilise the potential of the entire country
		Turkey	Ensure development based on local dynamics and internal potential and increase institutional capacity at the local level
Sustainability (environmental quality)	7	Belgium	Sustainability in all three regions (Flanders, Wallonia and Brussels- Capital)
		France	Sustainable development
		Hungary	Sustainable territorial development and protection of heritage
		Luxembourg	Sustainable development
		Slovak Republic	Sustainable development, environmental quality and high value of the Slovak countryside
		Spain	Sustainable development
		United States	Regional competitiveness, clusters, innovation, and sustainable development is an approach for some newer programmes

Table 1.A1.2. **Objectives of regional development policy** (*continued*)

Objectives	Number of countries	Country	Concrete description of regional development policies
Solve specific regional challenges (*e.g.* periphery, rural areas)	5	Finland	Solving specific regional challenges (*e.g.* social exclusion)
		Germany	Mitigate structural weakness of new *Länder* and parts of old *Länder*
		Switzerland	Increase the competitiveness of the regions and value-added of the rural, mountainous and border regions
		Turkey	Ensure development in rural areas
		United States	Federal policies typically provide infrastructure or planning investment to distressed areas to generate employment or provide affordable housing options
Decentralisation and regionalism	4	Hungary	Decentralisation and regionalism
		Korea	Decentralisation and local autonomy
		Turkey	Ensure development based on local dynamics and internal potential and increase institutional capacity at the local level
		United Kingdom	Enhance commitment to devolved/decentralised arrangements for policy delivery
Multi-centred territorial structure	3	Finland	Strengthening regional viability (through multi-centred territorial structure)
		Ireland	Foster enhanced co-ordination in the development of gateways and their regions (in terms of poly-centric territorial structure)
		Norway	Maintain the main features of the settlement pattern (territorial structure)
Inter-regional co-operation	2	Korea	Inter-regional co-operation and collaborative development
		New Zealand	Encourage cross-regional collaboration
Ensure the quality of public services in sparsely populated areas	2	Iceland	Create optimum community conditions for rural areas and ensure the quality of public services in sparsely populated areas
		Norway	Provide equal living conditions across the country; ensure a real, independent choice in where to live
Territorial integration into Europe, reducing the gap with the EU average	2	Czech Republic	Increase competitiveness, especially reducing the gap with the EU average
		Hungary	Territorial convergence (catching up), territorial integration into Europe
Reduce intra-regional disparities	1	Greece	Reduce inter- and intra-regional disparities, achieve territorial cohesion
Stronger democracy	1	Chile	Stronger democracy
Make the regional policy effective at the central level	1	Turkey	Make regional policy effective at the central level

Note: Some countries gave more than one answer.

Table 1.A1.3. **Indicators of fiscal decentralisation**

	Share in general government spending[1]								Share in general government revenues[2]							
	Central		Intermediate		Local		Social security		Central		Intermediate		Local		Social security	
	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]
Federal countries																
Austria	39.7	38.2	14.0	16.6	17.2	13.9	29.1	31.3	47.8	51.8	10.5	10.0	18.5	13.9	25.6	25.9
Belgium	31.7	23.9	20.5	23.5	12.5	13.5	35.3	39.1	57.3	55.5	5.4	9.1	8.1	7.2	30.0	29.0
Canada	35.7	29.4	40.4	45.2	18.6	19.3	5.3	6.0	40.4	39.7	42.1	42.4	11.8	10.4	5.7	7.5
Germany	29.6	19.1	18.7	21.9	14.2	15.6	37.5	43.3	27.5	29.3	24.0	24.5	12.8	12.3	38.9	35.6
Switzerland	17.4	14.8	31.0	33.7	23.3	20.9	28.3	30.6	30.0	33.0	27.6	28.3	22.2	20.0	23.5	20.2
United States[6]	58.3	56.3			42.8	44.9			63.7	63.6			37.6	37.7		
Unitary countries																
Czech Republic	64.9	61.8			22.8	25.4	12.3	12.3	72.8	67.4			19.9	19.5	10.7	13.9
Denmark	38.2	32.3			53.8	63.7	8.0	3.9	64.7	70.3			33.4	27.9	1.9	1.8
Finland	36.6	29.7			30.6	40.3	32.8	30.1	46.0	47.8			26.8	27.0	27.7	25.8
France	39.3	34.2			17.4	20.9	43.2	44.9	41.2	36.6			15.0	16.9	45.1	47.6
Greece	63.0	54.3			4.9	5.6	32.1	40.1	69.7	65.6			3.9	3.9	28.7	33.7
Hungary	51.4	48.2			24.9	23.3	23.7	28.5	59.6	58.8			15.1	15.5	28.1	27.6
Iceland	55.2	63.2			27.6	22.5	17.2	14.3	77.1	74.3			23.4	25.9	0.0	0.3
Ireland	58.0	69.8			30.6	19.1	11.4	11.0	79.8	77.7			13.7	16.1	10.7	12.9
Italy	49.7	31.8			24.0	31.7	26.3	36.5	61.1	51.9			12.9	20.3	28.0	29.5
Japan	35.1	33.8			38.5	31.9	26.5	34.4	29.4	32.2			37.0	32.9	33.6	34.9
Korea	43.4	40.8			44.9	44.5	11.7	14.6	67.0	60.6			22.6	20.3	15.8	22.3
Luxembourg	44.6	44.3			13.6	12.7	41.8	43.0	64.9	66.2			9.7	7.6	26.3	27.2
Netherlands	32.4	30.4			33.7	34.6	33.9	34.9	55.6	58.7			13.5	11.6	32.5	31.0
New Zealand	89.5	89.1			10.5	10.9	0.0	0.0	91.0	91.2			9.0	8.8	0.0	0.0
Norway	63.9	66.9			36.1	33.1	0.0	0.0	80.0	87.2			20.0	12.8	0.0	0.0
Poland[5]	53.8	34.8			19.0	32.0	27.2	33.2	48.4	51.9			18.6	19.6	33.0	29.2
Portugal	62.5	52.4			11.1	13.3	26.4	34.3	63.7	60.8			10.6	11.1	27.9	30.2
Slovak Republic	61.6	49.7			13.1	15.5	25.2	34.8	61.4	52.2			6.4	13.0	32.4	36.2
Spain	34.4	21.6	21.6	36.3	11.3	13.2	32.6	28.8	52.2	34.1	7.4	24.0	10.6	11.4	31.4	33.0

Table 1.A1.3. **Indicators of fiscal decentralisation** *(continued)*

	Share in general government spending[1]								Share in general government revenues[2]							
	Central		Intermediate		Local		Social security		Central		Intermediate		Local		Social security	
	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]	1995[3]	2008[4]
Unitary countries																
Sweden	52.3	40.8			37.7	47.1	9.9	12.0	56.1	51.4			33.6	36.8	10.6	11.8
United Kingdom	74.2	72.3			25.8	27.7	0.0	0.0	91.8	90.6			9.1	11.9	0.0	0.0
Average	48.8	43.8	24.4	29.5	24.5	25.8	22.2	24.7	59.3	57.8	19.5	23.1	17.6	17.5	21.1	21.8

Notes:

1. Excluding transfers paid to other levels of government.

2. Excluding transfers received from other levels of government and including tax sharing arrangements.

3. Or earliest year available: 1996 for Japan, Netherlands and Norway; 1997 for the Czech Republic; 1998 for Iceland; 2000 for Greece, Korea and Hungary.

4. Or latest year available: 2005 for New Zealand.

5. Unconsolidated data (only in 1995 for Poland).

6. For the United States, no breakdown between state and local governments is available.

Source: OECD National Accounts; Statistics Canada; US Bureau of Economic Analysis.

Table 1.A1.4. **Horizontal governance mechanisms**

Horizontal governance mechanisms	Number of countries	Countries
Inter-ministerial committee	15	Denmark, France, Germany, Greece, Hungary, Ireland, Italy, Korea, Luxembourg, Mexico, Norway, Portugal, Spain (only rural), Switzerland, Turkey
Fully fledged ministry	13	Australia, Chile, Czech Republic, Finland, France, Hungary, Iceland, Italy, Norway, Poland, Slovak Republic, Sweden, Turkey
Strategic planning and programming[2]	11	Austria, Belgium, Czech Republic, Finland (rural), Ireland, Japan, Korea, Luxembourg, Mexico, Netherlands, Portugal
Special units for policy co-ordination	7	Austria, Finland, France, Japan, Luxembourg, Mexico, Netherlands
Territorial proofing	5	Canada (rural lens, RDA's presence in Ottawa), Finland, Korea (only rural), Luxembourg, (through spatial planning system), United Kingdom (only rural)
Regional minister	4	Canada, France (territorial development, Capital Region), Netherlands (the Randstad), United Kingdom (England)
Comprehensive budget	3	Korea (special account), Mexico (only rural), Spain (only rural)
Agreement	1	United Kingdom (REP-PSA)

Notes: Some countries adopt more than one mechanism. Other than those mentioned, all EU countries have a strategic programming system.

Table 1.A1.5. **Horizontal governance – details**

Horizontal governance mechanisms	Country	Concrete mechanism
Inter-ministerial committee	Denmark	Ministerial Committee for Regional Policy
	France	CIADT, Study and Monitoring Group of State-Region Project, PASER Monitoring Committee
	Germany	Co-ordination of the Joint Task for the Improvement of Regional Economic Structure (GRW) and its multi-annual Co-ordination Framework
	Greece	Inter-ministerial Committee of Development Programmes
	Hungary	National Regional Development Council
	Ireland	Inter-departmental committee regarding NSS
	Italy	National Committee for the Co-ordination and Monitoring of Regional Policy
	Korea	Presidential Committee on Regional Development
	Luxembourg	Inter-ministerial Committee for Territorial Planning
	Mexico	Inter-ministerial Commission for Sustainable Rural Development, Micro-region Programme
	Norway	Cabinet Sub-committee on Rural and Regional Policy
	Portugal	Inter-ministerial committee for NRSF co-ordination
	Spain	Inter-ministerial Commission for Rural Development
	Switzerland	Conference of the Confederation for Territorial Organisation
	Turkey	Inter-ministerial committee
Fully fledged ministry	Australia	Department of Infrastructure, Transport, Regional Development and Local Development
	Chile	Sub-secretariat for Regional and Administrative Development
	Czech Republic	Ministry for Regional Development
	Finland	Ministry of Employment and Economy (by merger)
	France	Ministry of Ecology, Energy and Sustainable Development (by merger)
	Hungary	Ministry for National Development and Economy, National Development Agency
	Iceland	Ministry of Industry, Energy, Tourism; Institute of Regional Development
	Italy	Ministry for Economic Development
	Norway	Ministry of Local Government and Regional Development
	Poland	Ministry for Regional Development
	Slovak Republic	Ministry of Construction and Regional Development
	Sweden	Ministry of Enterprise, Energy and Communications and *Tillväxtverket*
	Turkey	State Planning Organisation

Table 1.A1.5. **Horizontal governance – details** (*continued*)

Horizontal governance mechanisms	Country	Concrete mechanism
Strategic planning and programming	EU	National Strategic Reference Framework
	Austria	Austrian Spatial Development Concept (2002)
	Belgium	Marshall Plan 1 and 2 (Wallonia)
	Czech Republic	Regional Development Strategy and Spatial Development Policy
	Finland	Rural Policy Programme
	Ireland	National Development Plan and National Spatial Strategy
	Japan	National Spatial Strategy
	Korea	Comprehensive National Territorial Plan, Five-year Plans for Regional Development
	Luxembourg	Master Programme for Territorial Development, Integrated Transport and Spatial Development Concept, Guiding Sectoral Plan
	Mexico	Law on Sustainable Rural Development and Special Concerted Rural Development Programme
	Netherlands	Peaks in Delta Programme
	Portugal	National Spatial Policy Programme
Special units for policy co-ordination	Austria	Federal Chancellery (BKA) and its Austrian Conference on Spatial Planning (ÖROK)
	Finland	Regional Development Advisory Board
	France	DATAR
	Japan	National and Regional Planning Bureau of the Ministry of Land, Infrastructure and Transport
	Luxembourg	Department for Spatial Development of the Ministry for Sustainable Development and Infrastructures, Superior Council for Territorial Planning
	Mexico	Federal Secretariat for Finance and Public Credit
	Netherlands	Spatial Economic Policy Directorate of the Ministry of Economic Affairs

Table 1.A1.6. **Vertical governance**

Vertical governance mechanisms	Number of countries	Countries
Contracts, agreements, often accompanying co-funding	15	Austria, Canada, Chile, Denmark, France, Iceland, Italy, Luxembourg, Mexico, Netherlands, Poland, Portugal, Spain, Switzerland, United Kingdom
Strategic planning and/or national target setting (legal system)	9	Czech Republic, Japan, Korea, Luxembourg, Mexico, Portugal, Slovak Republic, Switzerland, United Kingdom
Deconcentrated regional authority	7	Canada, Chile, Finland, France, Norway, Portugal, United Kingdom
Joint participation in co-ordinating committee	6	Australia, Austria, Germany, Norway, Spain, Sweden
Regional minister	4	Canada, France, Netherlands, United Kingdom (England)
Target setting and fiscal incentives	3	Italy, Norway, Switzerland
Budgeting process	2	Finland, Norway
Central-regional programme teams	1	Netherlands

Note: Some countries adopt more than one mechanism.

Table 1.A1.7. **Vertical governance – details**

Vertical governance mechanisms	Countries	Concrete mechanisms
Contracts, agreements, often accompanying co-funding	Austria	Multilateral and bilateral agreements
	Canada	Bilateral federal-provincial agreements, joint federal-provincial funding
	Chile	Planning Agreements
	Denmark	Partnership Agreements
	France	State-Region Project Contracts
	Iceland	Regional Growth Agreements
	Italy	Institutional Agreements and Framework Programme Agreements
	Luxembourg	Conventionalised informal agreements (urban areas)
	Mexico	Decentralisation Agreements
	Netherlands	Urban and rural contracts
	Poland	Regional contracts, territorial contracts
	Portugal	Global grant with municipal associations
	Spain	*Convenios* (collaboration agreements)
	Switzerland	Four-year Joint Programme Agreements
	United Kingdom	Regional Economic Performance Public Service Agreement
Strategic planning and/or national target setting (legal system)	Czech Republic	Spatial Development Policy
	Japan	National Spatial Strategy and Regional Spatial Strategies
	Korea	Comprehensive National Territorial Plan, Five-year Plans for Regional Development
	Luxembourg	Regional Plans
	Mexico	Planning system
	Portugal	Regional Spatial Plans
	Slovak Republic	Spatial planning process
	Switzerland	Federal Law on Spatial Planning
	United Kingdom	National performance targets for the RDAs
Deconcentrated regional authorities	Canada	Regional Development Agencies (mid-1980s), Federal Regional Councils
	Chile	Regional Development Agencies (2006-07), Territorial Management Programme
	Finland	Regional Management Committee's co-ordination with regional government
	France	Regional *Préfet's* co-ordination
	Norway	Innovation Norway
	Portugal	Regional Co-operation and Development Commissions
	United Kingdom	Regional Development Agencies in England
Joint participation in co-ordinating committee	Australia	Regional Development Council, Regional Development Australia
	Austria	Austrian Conference on Spatial Planning, ÖROK
	Germany	Co-ordination of the Joint Task for the Improvement of Regional Economic Structure (GRW) and its multi-annual Co-ordination Framework
	Norway	Annual contract conference and other meetings
	Spain	Conference of Regional Presidents, *sectorials* co-operation conference, the Council for Rural Development
	Sweden	National Forum and Thematic Group
Regional minister	Canada	Regional minister
	France	Territorial development, Capital Region only
	Netherlands	The Randstad only
	United Kingdom	Only in England
Target setting and fiscal incentives	Italy	Performance reserve system
	Switzerland	Four-year joint programme agreement (with reward and sanction regarding target)
Budgeting process	Finland	Budgeting process
Central-regional programme teams	Netherlands	Spatial Economic Policy Directorate of the Ministry of Economic Affairs

Chapter 2

Country Profiles

Each of the 32 OECD member country profiles uses a common conceptual framework, which allows countries to share their experiences. The profile covers key issues, such as problem recognition, the objectives of regional policy, legal/institutional frameworks, urban/rural frameworks, budget structures, and governance mechanisms between national and sub-national governments as well as across sectors.

Australia

Table 2.1. **Australia**

Country structure	• Federal, three levels of government (national, six states and two territories, 565 local governing bodies)
Problem recognition	• Maximising community economic and social development given a range of challenges including long-term demographic and structural changes, environmental constraints, globalisation and significant economic and social diversity within and between Australia's regions
Objectives	• Regional communities improving their economic, social, cultural and environmental well-being by fully developing regional potential through the delivery of better services for communities, investing in economic and social infrastructure, and promoting innovation for industries to help them grow, adapt and prosper
Legal/institutional framework	• State and Territory level regional policy making
Spatial orientation	
Urban policy framework	• Improving Future Strategic Planning of Capital Cities (through the Council of Australian Governments Cities Taskforce and the Major Cities Unit within Infrastructure Australia)
Rural policy framework	• Supporting stronger, more sustainable rural and regional communities across Australia
Major policy tools	• National programmes addressing regional priorities • Regional-specific programmes • Council of Australian Government National Partnership Initiatives • Regional Development Australia (RDA)
Policy co-ordination at central level	• The Department of Infrastructure, Transport, Regional Development and Local Government
Multi-level governance between national and sub-national levels	• Joint representation of RDA
Policy co-ordination at regional level (cross-sectoral)	
Policy co-ordination at regional level (geographic)	
Evaluation and monitoring	
Future directions (currently under discussion)	

Regional problems

The socio-economic profiles of Australian regions are very diverse and include: metropolitan regions; regional cities (both inland and coastal); industrial and mining towns (both metropolitan and regional), rural areas with major horticulture and viticulture industries and major tourism centres; rural areas in decline; remote indigenous communities; remote communities with fly-in fly-out workforce features; and very small communities with traditional industries.

Australia is one of the most urbanised countries in the world and its 17 major cities are home to 75% of the population. However, a large part of Australia's 7.7 million square kilometres land mass is remote, which results in considerable challenges in the development of government policy and programmes for both service delivery and industrial development. Regional, rural and remote Australia account for over one-third of the population and two-thirds of Australia's export income.

The natural environment can be a high constraint in developing Australia's regions both in terms of drought and salinity, flooding and bushfires. Australia also faces challenges of long-term demographic change with most people preferring to live along the coast and young people leaving rural and peripheral areas to live in major regional centres and cities.

Globalisation, global connectedness and long-term structural change also present serious challenges for some of Australia's regions. Many regions are vulnerable to global economic influences due to their dependency. The impact of the recent global financial crisis on Australia's regions was very uneven reflecting the diverse mix of industry, principal commodities and population characteristics of Australia's regions.

General objectives of regional policy

The federal government has articulated its vision for regional Australia on numerous occasions. The federal government is committed to supporting stronger, more sustainable rural and regional communities across Australia through delivering better services for communities, investing in economic and social infrastructure, and promoting innovation for industries to help them grow, adapt and prosper.

The federal government's approach to regional policy is targeted at three levels: the first objective is ensuring that the national macroeconomic settings are right to promote growth and economic development across all of Australia's regions. A strong national economy helps to support all Australians regardless of their location and helps to buffer regional communities from global and domestic economic shocks. The second objective is to ensure that mainstream national programmes are appropriately targeted to meet the needs of particular sectors, such as health and education, that encourage growth and opportunity and also provide a safety net for disadvantaged people. Whilst regional development objectives may not be a key consideration of these national policies, regional needs and priorities are addressed within each of the national policies. The third regional policy objective is supporting locally driven regional initiatives through a diverse range of federal regional programmes.

Federal government regional policy, contributing to the national economy, is a subset of mainstream policy and identifies specific required regional interventions. A key focus of the federal government's regional policy approach is establishing effective governance arrangements that promote partnership co-operation between the three tiers of government in Australia and that support engagement with local communities.

Legal/institutional frameworks of regional policy

Regional development objectives are pursued by Federal, State and Territory, and local governments, although the latter two are the most significant. Private sector and self-help community groups also play a minor role in regional development in Australia. The three tiers of government, and the constitutional and financial arrangements that determine their relationship to each other, form the basis of the regional development framework in Australia.

Main implementation tools

Regional Development Australia (RDA) is an Australian government initiative that aims to bring together all levels of government to enhance the growth and development of regional Australia. The RDA network provides a strategic framework for economic growth in each region, develops strategic input into national programmes to improve the co-ordination of regional development initiatives and ensure that there is effective engagement with local communities.

There are a range of mainstream and regional-specific programmes across federal government agencies that contribute to regional development outcomes. The **Regional and Local Community Infrastructure Programme**, the largest of its kind in Australia's history, has provided local governments with AUD 1.12 billion since 2008. The fund's objective is to build and modernise community infrastructure. The **Building Australia Fund (BAF)** was established in January 2009 to finance capital investment in transport, communication, energy and water infrastructures. Allocations from the fund, an initial AUD 20 billion, are guided by Infrastructure Australia's audit and its infrastructure priority list. In February 2009, the government announced an AUD 42 billion **Nation Building and Jobs Plan** to invest in infrastructure and support jobs.

Budget structure

There is no federal budget for regional policy or regional budgeting. At the federal level, regional and rural development is addressed through mainstream programmes and regional-specific programmes across all federal government departments. Individual States and Territories also have a diverse range of mainstream and regional-specific programmes that deliver regional development outcomes.

Within the Federal Department of Transport, Regional Development and Local Government, funding is allocated on an outcome basis. Under Outcome 3 "Co-ordinated community infrastructure and services in rural, regional and local government areas through financial assistance", funding is provided to the **Regional Development Programme** and **Local Government Programme**. Both of these programmes include a range of individual regional development and local government programmes.

The federal government also provides significant funding to the States and Territories to assist in the delivery of a range of programmes and services. In 2010-11, the federal government will provide the States and Territories with a total payment of AUD 94.1 billion. This consists of payments for specific purposes of AUD 45.5 billion and general revenue assistance, including goods and service tax (GST) revenue, of AUD 48.6 billion.

The federal government also provides united financial assistance to the 565 local governing bodies across Australia (urban, regional and remote) to help councils deliver basic services, maintain roads and upgrade community facilities. In 2010-11, AUD 2 billion in local government financial assistance grants will be provided to local government under the Local Government (Financial Assistance) Act of 1995.

Governance structures

The **Federal Department of Infrastructure, Transport, Regional Development and Local Government** is responsible for providing policy advice, research, delivering programmes and regulation for: infrastructure investment, transport security, surface transport, road safety, air transport, regional development and local government. Under the Regional Development and Local Government Programmes, the department funds programmes, provides policy advice on whole-of-government strategies to maximise the potential of each region, and promotes efficient and effective local government. In 2008, **Infrastructure Australia** was established to provide advice to the minister, the Commonwealth, the States, the Territories, the local governments and investors as well as the owners of infrastructure, on matters pertaining to infrastructure. Infrastructure Australia also audits the state of infrastructure and develops the "Infrastructure Priority List".

The **Council of Australian Governments (COAG)** is the peak inter-governmental forum in Australia. COAG is comprised of the Prime Minister, State Premiers, Territory Chief Ministers and the President of the Australian Local Government Association (ALGA). The Prime Minister chairs COAG. The role of COAG is to initiate, develop and monitor the implementation of policy reforms that are of national significance and which require co-operative action by Australian governments (for example, health, education and training, indigenous reform, early childhood development, housing, microeconomic reform, climate change and energy, water reform and natural disaster arrangements). Issues may arise from, among other things: ministerial council deliberations, international treaties which affect the States and Territories, or major initiatives of one government (particularly the Australian government) which impact on other governments or require the co-operation of other governments.

The Australian Council of Local Government (ACLG) is a consultative forum on the delivery of local infrastructure and services. The inaugural meeting of ACLG highlighted the federal government's agenda for forging a new and stronger partnership with local government. More than 400 mayors and shire presidents across Australia attended the meeting to begin a genuine dialogue on a number of issues of concern to both levels of government. These included local, regional and national infrastructure; local government efficiency; improving the liveability of major cities; strengthening regional economies; adapting to climate change; housing affordability; tackling indigenous disadvantages; and improving community well-being.

The **Office of Northern Australia** provides policy advice to the government on sustainable development issues in, or affecting northern Australia. The Office will enable better co-ordination across the government and between governments, businesses and communities on issues affecting northern Australia.

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Austria

Table 2.2. **Austria**

Country structure	• Federal, three levels of government (national, nine states [*Länder*], 2 357 municipalities [*Gemeinden*])
Problem recognition	• Urban-periphery disparities
Objectives	• Increase regional economic competitiveness • Growth path that contributes to balanced and sustainable development
Legal/institutional framework[1]	• *Land* level regional policy making • Multi-lateral and bilateral agreements between the Federation and the *Länder*
Spatial orientation	• Shift to urban areas
Urban policy framework	
Rural policy framework[2]	
Major policy tools	• Multi-lateral and bilateral agreements between the Federation and the *Länder* • Regional impulse centres • ERP loans • Aid scheme to support young entrepreneurs and innovation in SMEs
Policy co-ordination at central level	• Co-ordination of the Federal Chancellery (BKA) • Joint representation of the Austrian Conference on Spatial Planning (ÖROK) • Multi-lateral and bilateral agreements between the Federation and the *Länder*
Multi-level governance between national and sub-national levels	• Co-ordination of the BKA • Joint representation of the ÖROK • Multi-lateral and bilateral agreements between the Federation and the *Länder*
Policy co-ordination at regional level (cross-sectoral)	• Regional management office
Policy co-ordination at regional level (geographic)	• Micro-regions
Evaluation and monitoring	• Framework of EU Cohesion Policy
Future directions (currently under discussion)	

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The regional problems in Austria are not very pronounced in comparison to other EU member countries. Whereas the traditional east-west disparities disappeared after the fall of the former Iron Curtain, there are some concerns regarding the persistent urban-periphery divide. With increased mobility, settlement structures are becoming more scattered, leading to urban-hinterland problems such as increased commuting and urban-rural sprawl. A growing challenge is to ensure the provision of basic public services throughout the territory, especially in rural areas, making economic efficiency a primary concern. Since the EU's enlargement, a new boom area has been developing in the Vienna-Györ-Bratislava triangle, making cross-border co-operation an important element of spatial planning and regional policy. The main cities, Vienna and Graz, are confronted with increased immigration which causes specific urban problems such as social segregation. Long-term regional policy addresses challenges such as climate change, energy and demography (particularly immigration).

General objectives of regional policy

"**STRAT.AT**", the National Strategic Reference Framework required by EU Cohesion Policy is an important framework document for Austrian regional policy. The federal government brought together all stakeholders including federal, *Land*, and sub-*Land* governments as well as social partners for further regional policy co-ordination and knowledge-sharing. STRAT.AT states that:

> […] Austria must increase its regional economic competitiveness at a faster rate, with a growth path that provides increasing employment and income levels. Furthermore, the growth paths have to contribute at the same time to a balanced and sustainable regional development.

There is a clear efficiency orientation for regional policy, with strong macroeconomic performance expected to have positive effects on regional growth, thus contributing to regional balance. STRAT.AT identifies three thematic priorities: regional competitiveness and innovation, attractive regions and quality of location, and the adaptability and qualifications of the labour force. It also identifies two horizontal priorities: governance and territorial co-operation, which reflects the importance of cross-border issues. Support for innovation (a long-term feature of Austrian regional policy) and upgrading human resources are considered crucial for achieving this objective. Active collaboration among a wide range of stakeholders has been carried forward into the new programme period via the **STRAT.AT Plus** process.

Legal/institutional frameworks

In Austria, regional policy and spatial development are not defined by law so all federal and *Land* measures which focus on specific areas can be interpreted as regional policy. Constitutionally, nine *Länder* are in charge of regional economic development in the federal political system. The *Länder* governments prepare economic strategies and sub-regional spatial policy development plans in co-operation with regional development organisations. The *Land* level generally focuses on regional innovation which tends to target growth areas, though there are differences in the extent to which the *Länder*

support areas of growth potential (a feature in Styria, Upper Austria and Carinthia) or pursue more balanced territorial development (as in Lower Austria and Salzburg).

Over the last few decades, after a significant improvement of basic infrastructure endowment in rural areas which was achieved in the 1960s and 1970s, the nature and intensity of regional problems has not required or justified large-scale federal policy interventions. As a result, regional policy at the national level was relatively minimalist, primarily concerned with policy co-ordination. With the amended Constitution of 1974, agreements between the Federation and the *Länder* were allowed, and both **multilateral and bilateral agreements** have become an important tool for formal co-ordination. Federal involvement has strengthened since accession to the EU in 1995, with the need to establish implementation systems for the Structural Funds and regional aid for designated problem regions. Regional policy is closely aligned with EU Cohesion Policy.

Impacts of EU regional policy

Accession to the EU had a significant impact on regional policy, with micro-zoning under the Structural Funds and increasingly narrowly defined regional aid areas. Influence of EU Cohesion Policy 2007-13 is prevalent. The total allocation to Austria for 2007-13 is EUR 1.47 billion, with nearly half of that amount allocated for R&D and innovation-related investment. EU policy funding was significantly reduced by 30% and previously targeted regions may suffer from decreased funding and lower aid ceilings. Population coverage has fallen from 27.5% to 22.5%. Abandonment of micro-zoning from the Structural Funds and the enhanced weight of the Lisbon objectives imply that more funds will flow to urban areas and the lagging regions may not benefit, though the actual outcomes depend on the approach the *Land* take to spatial targeting, as the *Länder* had reasonable flexibility in designating areas under the regional aid guidelines. Alongside the new EU programmes, most *Länder* revised or refined their development strategies. While innovation remains at the core and most *Länder* target urban regions, some *Länder* explicitly target lagging areas.

Main implementation tools

Long-standing regional policy continues to stress innovation and technology transfers, focusing on co-operation and knowledge transfer via so-called **regional impulse centres** which have arranged support schemes. There hasn't been any major regional aid at the federal level since the withdrawal of the Regional Innovation Premium in 2000, though **ERP loans** (annual EUR 400 million) were renewed for 2007-13 and continue to support innovation-oriented projects in structurally weaker (often rural) regions (*i.e.* those designated for regional aid purposes). Under the new regional aid guidelines, a **federal aid scheme to support young entrepreneurs and innovation in SMEs** has been introduced in the designated aid areas, with an annual budget of EUR 6.5 million. With respect to broader business environment measures, the strong focus on R&D and innovation-oriented support remains, channelled mainly through the Austrian Research Promotion Agency (FFG), but rarely with explicit regional components. Lagging rural and/or peripheral regions can benefit from significant alternative funding under the EAFRD at the European level.

Budget structure

As regional policy is a *Land* responsibility, it is not generally directly federally funded. A substantial number of transfers are provided to sub-national governments under the Medium-Term Economic Framework which controls overall spending. The resources available to the *Länder* under the Structural Funds have been reduced by an average of 30%, thus its regional support for 2007-13 is EUR 677 million. Combined with the abolition of micro-zoning under the Structural Funds, this has significantly reduced the support available to lagging regions and has increased the scope for funding to be directed towards growth centres. The reduced budget, combined with the continuing innovation orientation of regional policy, has led to a shift away from high-cost fixed investment including infrastructure assistance towards low-cost support for measures such as the management of clusters.

Governance structures

Although arrangements for the 2007-13 Cohesion Policy programming period have prompted some minor adjustments, overall the administration of regional policy has remained largely unchanged in recent years. Basically, the **Federal Chancellery (BKA)** remains in charge of co-ordinating policies at federal and *Länd* levels, supported by non-binding recommendations of the Austrian Conference on Spatial Planning (ÖROK). The co-ordination function of the federal level has been developed through the National Strategic Reference Framework process and the merging of federal funding agencies has created some organisational centralisation. Consolidation amongst public authorities and agencies has raised questions about accountability, including the separation of policy design and delivery functions between different ministries and agencies. These questions were evaluated and results were supposed to be delivered in spring 2009. At the same time, some tasks have been decentralised. In particular, territorial co-operation programmes of Cohesion Policy are no longer managed by the Federal Chancellery but by programme managing authorities at the regional level. Fragmentation at the local level has prompted the emergence of micro-regions (*Kleinregionen*) that collaborate on tasks such as spatial planning and business promotion.

The **Austrian Conference on Spatial Planning (*Österreichische Raumordnungskonferenz*, ÖROK)**, which was created in 1971 as a joint organisation of the Federation and the *Länder* under the auspices of the Federal Chancellery in order to co-ordinate spatial planning projects, is a key co-ordination instrument across and between levels of government. Besides the Federal Chancellor (the Prime Minister) its formal Chairman, the ÖROK includes all federal ministers, *Länder* governors and presidents of the Austrian Unions of Towns and the Austrian Union of Communities, as well as representatives of various interest groups (only with advisory powers). The informal consensus-based co-ordination framework sets out resolutions and recommendations. One of ÖROK's principal tasks is to establish the Austrian Spatial Development Concept which is generally revised every ten years. The most recent Concept (ÖREK 2001) was published in 2002. Based on "ÖROK Scenarios 2030" (a series of long-term spatial development scenarios for Austria presented in 2009), preparation of the next Development Concept, to be approved in 2011, has already begun. The ÖROK is also the country's co-ordination platform for Cohesion Policy, drafting and

monitoring NSRF (STRAT.AT) and co-ordinating the regional allocation of European funds and monitoring regional operational programmes.

Cross-policy co-ordination is a challenge for regional policy, particularly its interaction with rural development and R&D. In this context, a new platform has been established for the co-ordination of R&D activities between the national level and the *Länder*. The **Platform FTI Osterreich** was created by the Austrian Council for Research and Technology Development (*Rat für Forschung und Technologieentwicklung*) in 2007.

Regional management offices have been providing advice on an integrated approach for regional policy at regional and sub-regional levels since 1995. They are regional development associations with municipalities as their main members, but most of the financial resources come from the *Länder* and are co-financed by EU Structural Funds in some cases. Regional Management Austria was established in 2001 as a network of 25 regional management offices.

The nine *Länder* have their own constitutions and legislative powers. Vienna, as the federal capital city, is also given the status of *Land*. The *Land* is headed by a governor. As the *Länder* are responsible for implementing federal laws, the governor is responsible not only to the *Land* Parliament for regional matters but to the federal government as well for the implementation of federal policies. Under the *Land* level, district administrations provide deconcentrated administration for both the federal and the *Land* governments. The district commissioner is appointed by the *Land*.

Performance monitoring and evaluation, which have been influenced by the EU model, are increasingly important in ensuring policy efficiency. The perceived utility of Structural Funds evaluation has promoted the application of similar approaches to national regional policy measures. Evaluation capacity building activities following accession included the establishment of the Checkpoint EVA platform which had the objective of facilitating exchange of experience and learning in regional policy evaluation. This was developed further for the 2000-06 period when the co-ordination and work platform KAP-EVA was established. For 2007-13, an ongoing reflection process of the Cohesion Policy implementation based on STRAT.AT was set up (**STRAT.AT Plus**). This is perceived to be a useful tool for stimulating discussion, setting common standards and adapting EU requirements to domestic needs.

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Belgium

Table 2.3. **Belgium**

Country structure	• Federal, four levels of government (national, three communities [*gemeenshappen*, *communautés, gemeimschaften*] and three regions [*gewesten, régions*], ten provinces [*provinciën, provinces*], and 589 municipalities [*gemeenten, communes, gemeinden*])
Problem recognition	• Insufficient entrepreneurship, creativity and job creation (Flanders) • Decline of industrial areas (Wallonia) • Inter-regional disparities
Objectives	• Focus on economic dynamism in Flanders • Shift towards higher value-added activities in Wallonia • Sustainability in all three regions
Legal/institutional framework[1]	• Regional level regional policy making • Flanders in Action and the following Pact 2020 in Flanders • Marshall Plan 1 and 2 in Wallonia
Spatial orientation	• Designated lagging regions and competitiveness poles in Wallonia
Urban policy framework	
Rural policy framework[2]	
Major policy tools	• Industrial estate regeneration in Flanders • Competitiveness poles in Wallonia
Policy co-ordination at central level	• None
Multi-level governance between national and sub-national levels	• None
Policy co-ordination at regional level (cross-sectoral)	• Better governance policy, Socio-Economic Council in Flanders • Marshall Plan 1 and 2 in Wallonia • Merger of ministries in Wallonia
Policy co-ordination at regional level (geographic)	
Evaluation and monitoring	• Regulatory impact analysis in Flanders • *Ad hoc* policy evaluations in all three regions • Mid-term and final assessment of the Marshall Plan 1
Future directions (currently under discussion)	

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The socio-economic differences between the three regions (Flanders, Wallonia and Brussels-Capital) have been changing over time. Broadly speaking, Flanders has moved from a rural and small-firms dominated economy to a technologically advanced leading region in Europe, though internal disparities can be observed at the sub-regional level. Congestion, the shortage of high quality industrial estates, urban sprawl, innovation and FDI attractiveness and embeddedness are also challenges.

Wallonia was an advanced industrial region until the 1970s, but today is lagging due to difficulties in industrial restructuring. Wallonia continues to face lower GDP per capita and higher unemployment rates than Flanders, which also vary substantially within the region. Of particular concern are old industrialised areas, which cover more than 50% of Walloon territory. With an industrial past dominated by the coal and steel industries, a large number of former industrial sites in Hainaut and in the province of Liège have been lying vacant.

Pockets of poverty are found in Brussels and in other large cities such as Antwerp in Flanders. Sustainable development is increasingly important in all three regions. Finally, the institutional set-up of the country and related division of competencies, *i.e.* further regionalisation of competences, remain a prominent topic on the political agenda.

General objectives of regional policy

There are no national-level regional policy objectives. In **Flanders**, general regional development objectives were set out in the 2004-09 policy programmes: to promote the region as a competitive knowledge economy, to promote Flanders as a competitive region to invest in, and to promote competitive firms. The programme underlined the importance attached to innovative entrepreneurship, enhanced SME support, tackled urban bottlenecks and improved industrial estate provision. Focus on competitiveness and growth is obvious and continuing in Flanders.

The main policy objectives in **Wallonia** under the Marshall Plan 1 and 2 are: to increase wealth creation and the employment rate, to continually develop knowledge, to continuously improve the living environment, and to ensure balanced territorial development by concentrating support on disadvantaged areas. Sub-categories include: creating competitiveness poles (aerospace, life science, agro-industries, transport and logistics, mechanical engineering and more recently environmental technologies), stimulating firm creation, lowering corporation tax and creating *franc zones* with attractive tax regimes, enhancing research and innovation in firms to improve the skills of the workforce, and supporting sustainable development and energy efficiency. Significant stress remains on territorial balance and a territorial approach targeting disadvantaged areas, albeit now accompanied by a more proactive attitude to regional development in line with EU objectives. Coherence between domestic regional aid and the Structural Funds has increased.

In **Brussels-Capital**, the main objectives are to resolve problems of urban congestion, address infrastructure needs, pursue social inclusion goals, fight the high unemployment rate, and develop the international profile of the city-region. In **all three regions**, there is a focus on the implementation of these strategic documents and sustainable development has moved up on the policy agenda, along with the growth and competitiveness objectives.

Legal/institutional frameworks of regional policy

Regional policy is a regional responsibility. Regional policy was traditionally synonymous with regional aid schemes and governed by federal framework laws. Following the abolition of federal framework legislation, new regional legislations were introduced at the regional level, covering all policies falling under regional competences. Although regional aid remains important, especially in Wallonia, the current approach to regional economic development is broader. Strategic approaches can be identified in Flanders and Wallonia which provide a general framework for regional policies. **Flanders in Action** (2006, amended in 2009 as "**Pact 2020**") and the **Marshall Plan** (introduced in 2005, evaluated in 2007 and 2009, pursued as the "**Marshall Plan 2.green**" in 2009) in Wallonia are policy documents which support a more integrated approach to regional policy.

Main implementation tools

Flanders in Action underlines the importance of innovative and creative entrepreneurship and services for SMEs, as well as industrial estates policy. In Flanders, focus was on a horizontal approach based on competitive selection procedures, involving support for investment in SMEs across the region and large firms in designated aid areas; environmental aid; advisory measures; and training aid. The focus of **Pact 2020** remains wealth creation, inclusion and sustainability. Pact 2020 puts forward three main policy priorities: the reduction and simplification of aid schemes, the greening of production processes, and marketing.

Arguments for focusing economic development activities in and around cities have met with public resistance in Flanders on environmental grounds and are currently being reconsidered. In the future, there may be more focus on transport corridors between cities. New legislation came into force in 2007 to support the development, upgrading and regeneration of **industrial estates** (including brownfields) with a recent shift in focus towards their sustainability and carbon neutrality. A **spatial development decree** is under development to make space management more efficient, including a more sustainable approach to industrial estates. The SME growth premium was discontinued at the beginning of 2009 and the budget was transferred to the **ecological premium**, where conditions and award rates were made more attractive. In April 2009, award conditions across a range of schemes were relaxed in response to the economic crisis.

Support for the business environment is gaining in importance and is reflected in the role played by the **Enterprise Agency** (*Agentschap Ondernemen*) which was established in 2009 through a merger of the Agency for Economy and the Flemish Enterprise Agency, creating one-stop policy delivery. Accredited **Regional Partnerships (ERSV)** have been established to support the development of comprehensive sub-regional policy strategies.

The **Walloon Marshall Plan** aims to pool regional and EU funds to enhance development and job creation in the whole region, not only in disadvantaged areas. However, in compliance with balanced territorial development objectives, the new aid map is concentrated on disadvantaged urban and rural areas. Aid area population coverage has fallen from 22% to 19%. The entire Hainaut region (a statistical region which holds 12.4% of the national population) is eligible but with a focus on towns and urban agglomerations. The region qualifies for aid up to 30% of eligible investment (to be evaluated in 2010). With the exception of the Hainaut region, the designated aid area ceiling has been reduced. Compared to the previous automatic award system, awards have become more selective in recent years. The award rate depends on the nature of the investment programme, its innovative character, and the extent to which it represents a priority (for instance, being in a disadvantaged zone [*franc zone*] and/or being linked to a competitiveness pole). In May 2009, SME award ceilings for environmental aid increased, partly in response to the economic crisis.

There is now greater coherence between different zoning approaches and instruments. In particular, investment aid under the Structural Funds programmes, the regional aid map and the Marshall Plan 1 and 2 are now concentrated on designated ***franc zones***, 52 deprived urban and 17 deprived rural areas, as well as areas with potential. Apart from this territorial approach, a more thematic and innovation-oriented policy is being promoted through the creation of **competitiveness poles**. Selection and development of competitiveness poles is a key element of the Marshall Plan. Five poles (aerospace, life sciences, agro-industries, transport/logistics, and mechanics) were chosen in 2006. In addition to traditional aid schemes, between 2006-09, EUR 235 million were spent on these poles.

Following the evaluation of the Marshall Plan in 2007, an additional priority on sustainable development and energy efficiency was introduced. In 2008, an Air Climate Plan was adopted as a horizontal framework with regional development elements and a sixth pole in environmental technologies was launched in 2010. More coherent business support is promoted through the establishment of the Agency for Economic Stimulation and the Agency for Technological Stimulation.

Impacts of EU regional policy

During the period 2007-13, Belgium will benefit from European regional aid amounting to almost EUR 2.3 billion (EUR 638 million for the Convergence Objective and EUR 1.5 billion for the Regional Competitiveness and Employment Objective). It generally aims to allocate at least 80% of the financial package available to measures promoting the Lisbon Objectives in support of growth and jobs. The main priorities are R&D and innovation (EUR 665 million), environment (EUR 303 million), a skilled and adaptable workforce (EUR 257 million), and SME support (EUR 177 million). New financial engineering instruments such as micro-loans have been set up within the programmes. The EU aid map for 2007-13 was endorsed covering 6% of the national population (a reduction of one-third) and coherence was ensured by applying the same aid ceilings across the entire country. The objective for 2007-13 is to make support more transparent and to increase selectivity through budget limits and by introducing scoring minima for the purpose of supporting a higher number of firms, with lower levels of funding for each firm.

Regional aid regimes operate under distinct legislation in Flanders, Wallonia and Brussels-Capital. New decrees have been introduced in regions to align their aid systems with the 2007-13 EU guidelines. In the three regions, secondary legislation has been passed to enhance aid for firms. In Flanders, the main aid scheme was amended in February 2008. Flanders additionally issued a decree on strategic investment and training aid. In pursuit of simplicity and visibility, horizontal support has been strengthened, involving a uniform approach across all sub-regions in Flanders. Regional aid takes the form of a budget-limited call-for-proposals for large projects exceeding EUR 8 million (for SMEs) and a highly selective system for strategic projects (large firms).

Budget structure

In Flanders, regional aid-related expenditure under the Hermes Fund fell from EUR 281 million in 2006 to EUR 217 million in 2007, and funding for regional investment aid fell from EUR 233 million in 2006 to EUR 154 million in 2007, both due at least in part to the transition to the new aid regime. The 2006-09 Marshall Plan in Wallonia added an additional envelope of EUR 1 124 million to the ordinary budget. Of this, EUR 235 million was devoted to the creation of competitiveness poles and EUR 360 million to the stimulation of economic activity, including EUR 85 million to Economic Expansion aids. More recently, EUR 48 million has been added to the budget in the fields of sustainable development and energy efficiency. Due to the recent economic crisis, the amount disbursed through the economic stimulus package of December 2008 was broadly equivalent to that available under the Marshall Plan. Finally, the 2.green version of the Marshall Plan foresees a budget of approximately EUR 2.7 billion for 2010-14.

Governance structures

Successive reforms of the federal system of government have devolved significant competences to the regions. Processes underway since the 1970s have made the country one of the most regionalised member countries of the OECD. Following constitutional reform in 1970, regional economic development competencies were transferred from the federal level. There is no national level co-ordination of regional policy. Since 2003, regional aid legislation replaced the former federal framework laws. However, federal powers are still responsible for some important areas. For example, fiscal equalisation mechanisms to balance inter-regional disparities are the responsibility of the federal level. This is a source of ongoing controversy, particularly in Flanders where there is debate about the regionalisation of fiscal instruments to improve the general business environment. The regions respond to the decentralisation process in different ways. In Flanders, the provincial level, together with regional development agencies, play a fairly substantial role in regional development. In contrast, the Walloon provinces have less important competences.

The Flemish and Walloon governments have focused on restructuring public administration in order to improve intra-regional co-ordination between policy fields. The "**Better Governance Policy**" in Flanders has brought together policy instruments in support of entrepreneurship and innovation in one unit. Debate in Flanders in recent years concerning the co-ordination of competences across administrative levels has produced: a legal agreement on co-ordinating implementation arrangements, provincial development agencies that operate alongside regional agencies, and the launch of regional economic

and social negotiation committees and regional socio-economic councils which have an advisory and co-ordinating role.

In Wallonia, efficiency-oriented administrative approaches are evolving. Two agencies were created in 2006 to provide more coherent economic and technological support for businesses. The **Agency for Economic Stimulation (ASE)** aims to rationalise existing economic support structures and make them more coherent. The **Agency for Technological Stimulation (AST)** provides support for networking and research utilisation activities. Increasing importance is being given to policy co-ordination in the context of the Marshall Plan 1 and 2, wide-ranging regional policy documents which strive to link the various components of economic development. The Ministry of the Walloon Region and the Transport Ministry were merged to increase the co-ordination of service provision. Further mergers have taken place between the economic and research sectors, illustrating how the increasing importance of the competitiveness agenda is driving change in regional policy administration. The **Walloon Declaration on Regional Policy** also prioritises co-ordination between the French and German Communities and the Brussels-Capital Region. The long-term objective is to review and potentially merge agencies and administrations that carry out complementary tasks.

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Canada

Table 2.4. **Canada**

Country structure	• Federal, three levels of government (national, ten provinces and three territories, 5 000 municipalities)
Problem recognition	• Growing regional competitiveness needs • Regional disparities, urban-rural divide
Objectives	• Promote endogenous regional growth, competitiveness and prosperity in all regions • Reduce regional disparities and provide equal opportunities and basic public services across regions
Legal/institutional framework	• Regional development agencies (RDAs) • Other federal and provincial departments have development responsibilities • Bilateral federal-provincial agreement and co-funding • Provincial level strategy making
Spatial orientation	• All regions • RDAs tend to favour actions in rural and remote communities
Urban policy framework	
Rural policy framework	• Canada's Rural Partnership • Rural Lens approach by Rural and Co-operatives Secretariat
Major policy tools	• Many and diverse programmes of the RDAs, including innovation and community development • Community Futures Programme • National Research Council Technology Clusters • Infrastructure renewal programming, such as the Building Canada Plan and the Gas Tax Fund, Municipal Rural Infrastructure Fund • The equalisation programme and other federal fiscal transfer tools (not primarily or directly for economic development purposes, but to allow provinces to meet their constitutional responsibilities to provide a roughly equivalent level of services, mainly in education, health, and social services, at roughly equivalent levels of taxation)
Policy co-ordination at central level	• Regional ministers system • RDAs presence and advocacy in Ottawa
Multi-level governance between national and sub-national levels	• Regional ministers system • RDAs presence in Ottawa • Federal regional councils • Bilateral federal-provincial agreement and co-funding
Policy co-ordination at regional level	• Regional development agencies • Federal regional councils
Policy co-ordination at regional level (geographic)	• Special agencies, joint boards and commissions • Amalgamation of urban municipalities in mid- to late 1990s
Evaluation and monitoring	• Regular evaluation of federal programmes and RDA activities
Future directions (currently under discussion)	• As of 2009, all regions of Canada represented by a federal RDA

Regional problems

The vast size and economic and demographic diversity of the country has led to disparities in economic opportunities and outcomes across regions as well as between urban and rural areas. The existence of an extensive fiscal equalisation system supports the view that it is essential to provide a similar level of access to public services across the country. The geography of Canada also means that transport and communication infrastructures have been critical for the development of the different regions and notably for more remote areas. Especially since the NAFTA agreement in 1992, provincial economies have been increasingly globalised and external trade with the United States, as well as with the rest of the world outside of North America, has grown relative to interprovincial trade. Increasing regional competition especially with the American regions has brought competitiveness to the fore. One of the major challenges of the Canadian Federation is thus to combine competitiveness at the provincial and sub-provincial levels with territorial cohesion throughout the federation.

General objectives of regional policy

Canada has a long-standing target to reduce regional disparities in opportunities through regional development. There are also long-standing equalisation objectives of creating equal opportunities for every Canadian and providing an equal and acceptable level of basic public services, as recognised in the Constitution Act. To respond to these challenges, a series of federal departments were in charge of regional economic or industrial expansion. In the mid-1980s, there was a fundamental reorganisation of regional development policy. Regional policies were redefined as helping regions to realise their economic potential and the administration of regional policy was deconcentrated to a series of regionally based agencies. The focus on sectoral support for firms or industries in depressed regions has given way to multi-sectoral approaches designed to foster endogenous regional economic development with a particular emphasis on small and medium-sized enterprises (SMEs). The current objectives of regional policy include promoting economic growth, competitiveness and prosperity in all regions; expanding business potential and employment opportunities; and responding to community needs during periods of economic slowdown or crisis. The government's 2006 long-term economic plan, Advantage Canada, outlines several priority areas for the government for the years ahead, including ensuring the seamless flow of people, goods, and services (the "Infrastructure Advantage").

Legal/institutional frameworks of regional policy

Since the mid-1980s, regional development programmes have been delivered by deconcentrated federal **regional development agencies (RDAs)**.[1] RDAs have brought about a greater focus on endogenous development and facilitated the transition towards more knowledge-based activities. The architecture between agencies and federal departments has been altered to accommodate more inter-sectoral programmes, to develop portfolio approaches and to promote relatively asymmetric territorial strategies. While some cutbacks were introduced in the federal regional budget in the 1990s, it has nevertheless led to the transfer of several federal programmes to the agencies in recognition of their economic role. RDAs have similar overarching aims: to design,

implement and monitor policies and programmes promoting the economic development of their region. Broadly speaking, many of the activities undertaken by the RDAs are similar (*e.g.* focus on SMEs, reduced reliance on direct assistance to business, increased focus on innovation and community development), programming varies from region to region in order to be responsive to local conditions and to address specific gaps. They are expected to work with national, provincial and local agencies to optimise the impact of national policies and programmes on the development of the economy through the integrated and multi-sectoral management of federal programmes. With the establishment in 2009 of two new agencies in southern Ontario and the north, the six agencies now serve all areas, rural and urban, growing and declining. Practically all RDAs tend to favour actions that address the particular challenges of rural and remote communities, where many of the economic challenges reside, such as economic diversification and contribution and connection to the knowledge economy.

While the main approach of the federal government to regional development is through the activities and policies of its six RDAs, **joint federal-provincial funding** of a wide and fairly indiscriminate range of specific projects such as infrastructure, industry, services, human resources, agriculture and natural resources (though infrastructure, especially transport infrastructure, has always remained important) also continues, with the federal government by far the principal source of funding. Perhaps the biggest are labour market development agreements/labour market agreements for labour training purposes, which are almost exclusively federally funded. Infrastructure funding often requires matching funding from both provinces and municipalities. The **bilateral federal-provincial agreements approach**, which Canada has embraced in many areas because of difficulties to develop nation-wide agreements, often leads to vertical policy co-ordination of federal, provincial, and sometimes local governments. Diverse regions and problems can thus be addressed by specific contracts,[2] devoted to specific regional concerns. The agreements are designed to promote economic growth in areas of joint federal-provincial strategic interest. They are based on a matching fund principle. Projects are selected by both federal and provincial authorities, but the rules are mainly dictated by the federal government. For the most part, federal agencies provide relatively modest and indirect forms of assistance (*e.g.* for training, technology transfer, or market research). This form of economic development assistance, often designed and given in collaboration with other governmental and/or non-governmental partners, is most often directed to SMEs as well as NPOs.

Although they rely on federal funds to support their regional development programmes, **the provinces** generally play an important role in their own economic development. The key economic role for the provinces stems from a number of different sources depending on the provinces' situation, including their constitutional responsibilities for social policy and infrastructure; their constitutionally established control over municipalities; their considerable taxation, spending and regulatory powers; and their extensive control over natural resources (an important source of export and economic growth in Canada).

With regards to economic development policies, all three levels of government play a role. The federal and provincial governments determine to a large extent the business environment conditions, such as the tax regime, trade and investment rules and labour legislation. Both the federal and provincial levels have functions in science policy, and although innovation is considered to be a federal responsibility, provinces also play considerable complementary roles. Municipalities also provide general and sectoral interventions aimed at attracting economic development, for example through incentives,

taxation, network-building and other forms of support. Similar shared responsibilities can be found in physical development (infrastructure) and sustainable policies.

A comprehensive urban policy framework has been absent from the federal policy agenda. However, the federal government focused on urban issues with the Cities Secretariat in 2004-07, and then with CAD 4 billion investments in the **Canada Strategic Infrastructure Fund**, which mainly targets strategically important community infrastructure in large and medium-sized cities. **Urban development agreements**, which are specifically directed to cities, have been promoted in the western provinces. The Vancouver Agreement (since 2001) is one of the most famous examples, while the contractual arrangements of Edmonton, Winnipeg and Regina are also in pursuit of a commonly defined sustainable competitiveness agenda.

Canada does not have an official rural policy, but it has a set of government initiatives to support rural development. Through a horizontal initiative called **Canada's Rural Partnership (CRP)**, the federal government's **Rural and Co-operatives Secretariat** (located within the Department of Agriculture and Agri-Food Canada) works to link the activities of different federal departments and agencies in or targeted to rural, remote and northern areas. Since 1998, three successive CRPs have been implemented, with the current one (2009-13) focussing on rural communities facing economic challenges and their transition to a more competitive economic base. In its lead role in the rural file, the Rural and Co-operatives Secretariat develops partnerships amongst federal departments, provinces and rural stakeholders in areas such as knowledge building, policy development and the implementation of rural development strategies.

Another element of the CRP is the **Rural Lens** approach. It aims to ensure that rural priorities are taken into consideration in the development of government policy and that rural objectives across ministries are coherent. Established at the end of the 1990s, Rural Lens promotes awareness about the needs and conditions of rural communities, and evaluates the impact of federal policies, programmes and services on rural and remote areas. Finally, the federal government has also established a **Rural Development Network** to inform researchers and policy analysts on the challenges and needs of rural communities.

RDAs play an important role in economic development, particularly in parts of Canada (such as the Atlantic) where the population is more rural than for Canada as a whole. They manage many federal programmes that are oriented towards rural community development and regional innovation. During the economic crisis, their RDAs played a central role in delivering two stimulus funding programmes over 2009 and 2010: the Community Adjustment Fund and the Recreational Infrastructure Canada Program, both of which are important elements of Canada's Economic Action Plan. Provinces also have their own rural initiatives. With the exception of British Colombia, all provinces and territories have either an official rural development strategy or a broader regional approach.

Main implementation tools

Canada's RDAs play a key role in complementing broader national policies and programmes, with more tailored, place-based policies and programmes to respond to the unique needs of each region. RDAs manage many programmes across Canada that aim to diversify and expand economies through a strengthened small business sector and communities (*e.g.* the Business Development Program and the Atlantic Innovation Fund

in Atlantic Canada, the Business Regional Growth Program in Québec, and the Northern Ontario Development Program in Northern Ontario).

Additional federal policies aimed at enhancing regional competitiveness are carried out through the **Community Futures Programme (CFP)**. This community-based economic development initiative aims to promote local leadership and business development, mostly but not only in rural areas. Main implementation tools within the CFP are the Community Futures Development Corporations (CFDCs) which support the creation, development and succession of mostly small business through consulting, debt finance, equity investments, and technical assistance. CFDCs operate as non-profit organisations and are overseen by volunteer boards of directors who are representative of the regions and communities. Since their creation in 1986, local CFP offices have provided 93 000 reimbursable loans, mostly in rural areas, amounting to CAD 2.7 billion.

The **Building Canada Plan** (2007-14), drafted by Infrastructure Canada, is a plan for a stronger economy, cleaner environment and better communities. The plan provides CAD 33 billion in stable, flexible and predictable funding to Canadian municipalities allowing them long-term planning by addressing their ongoing infrastructure needs. Building Canada was launched in November 2007 to help realise the federal government's 2006 long-term economic plan, Advantage Canada. It recognises the unique infrastructure needs of small communities. The CAD 1.1 billion communities' component of the plan provides targeted support to smaller communities (with a population of less than 100 000 people). Recently, the government allocated an additional CAD 500 million to the communities' component for targeted infrastructure projects.

The **Gas Tax Fund** is the largest component of the Building Canada Plan. It provides funding for environmentally sustainable municipal infrastructure projects such as green energy, public transit, water and wastewater infrastructure and local roads. Municipalities will receive a total of CAD 11.8 billion in gas tax funding. In response to ongoing requests for stable, long-term funding from municipalities, the central government decided to extend the tax by CAD 2 billion per year beyond 2013-14, making it a permanent measure.

In the same way as the Building Canada Plan, the **Municipal Rural Infrastructure Fund (MRIF)** is managed by Infrastructure Canada and was launched in 2003 with an initial budget allocation of CAD 1 billion. The MRIF focuses on smaller-scale municipal infrastructure projects, aiming to increase connectivity for smaller and rural communities. In 2007, the government of Canada topped up the MRIF programme with an additional CAD 200 million. To ensure an equitable distribution of funding and to address the individual needs of smaller communities, a minimum investment of 80% was to be directed to projects that benefit municipalities with populations of less than 250 000 people. To encourage the use of integrated asset management by small-scale municipalities, provinces and territories, they can allocate up to 1% of their respective MRIF contribution towards a municipal capacity building component. "**Growing Forward**", managed by Agriculture and Agri-Food Canada, has been aiming to build a competitive and innovative agricultural sector since 2008 with a total commitment of CAD 1.3 billion in funding for a 5-year period. The funding is cost-shared on a basis of 60:40 between the federal government and the provincial and territorial governments. The Rural and Co-operatives Secretariat also delivers the Community Development Program, Building Rural and Northern Partnerships.

The federal government promotes business research and development. One of the main federal direct support programmes is the **Industrial Research Assistance Program**, run by the National Research Council, which provides a range of both technical and business-oriented advisory services, along with financial support to growth-oriented SMEs. Indirect federal funding is provided by a tax credit programme for **Scientific Research and Experimental Development**. In addition, there is a wide range of federal programmes intended to support the diffusion of technology, such as the **National Research Council Technology Clusters**.

In 2008, because of volatility in financial and commodities markets, the government set a CAD 1 billion programme to provide support for small resource-dependent towns to allow economic restructuring. A base amount of CAD 10 million was provided to each province and CAD 3 million to each northern territory, with the balance of the funding allocated on a per capita basis. In 2009, as part of the economic stimulus package responding to the global recession, the government invested an additional CAD 1 billion to support communities affected by the economic slowdown to foster economic development and promote diversification. This fund is administered by the RDAs.

Budget structure

Revenues and expenditures are highly decentralised, ranking Canada as one of the most fiscally decentralised member countries of the OECD. The significance of federal transfers varies considerably among provinces. The degree of regulatory power and conditionality associated with federal transfers to the provinces has also been reduced considerably. Provinces have extended taxing and spending power. Municipal governments across Canada have a limited ability to raise and spend money. Municipalities can only borrow for capital projects and are further constrained by requirements prohibiting municipal deficits.

It should be noted that a national inter-provincial **equalisation scheme** has been the centrepiece of Canada's objectives of equalising provincial fiscal capacities since 1957, and complements the country's efforts towards the economic development of its regions. The federal-provincial equalisation payments, which are written into the Constitution, are aimed to enable each province to provide a reasonable common level of public services. The **equalisation transfer** is a vertical transfer from the federal government to provinces with lower fiscal capacity. Equalisation transfers are entirely unconditional. The transfer is to guarantee minimum financial capacity (average of the five poorest provinces), instead of achieving horizontal equalisation among provinces. A fiscal capacity above the national average remains entirely within the province, fully benefiting from developing endogenous resources and from augmenting their tax base. The "ceiling" limits federal obligations while the "floor" promotes stability in each province's grant. The **Canada Health and Social Transfer (CHST)** provides provinces with both cash payments and tax transfers in support of health care, post-secondary education and social services. The payments are partially conditional, since provinces and territories have the flexibility to allocate payments among social programmes according to their priorities. The CHST is basically allocated on a per capita basis. The **Territorial Formula Financing (TFF)** is an annual unconditional transfer from the federal government to the northern territorial governments. Entitlements are determined through a formula based on a gap-filling between the stylised expenditure needs and revenue capacity. TFF includes a financial incentive to promote economic activity and is governed by agreements between the

federal and territorial finance ministers. The northern territories are heavily dependent on transfers from the federal government.

Regional transfers to provinces as a percentage of total federal spending declined between the 1970s and 1990s, indicating a more modest federal fiscal effort in the field of regional development than during the policy's early period. Federal transfers to the provinces explicitly earmarked for regional and industrial development represented only 1% of total federal transfers to the provinces by the late 1990s. Federal reductions in inter-governmental transfers in the 1990s led to provincial cutbacks in services and transfers known as "down-loading". The down-loading meant the transferring of certain responsibilities to municipalities and in many instances entailed reductions in provincial grants and service withdrawal from the provincial side. The effect of down-loading without corresponding finances and revenue generation capacities was particularly severe in Ontario. However, formal commitments between the province and its municipalities have been made to eliminate a considerable part of the down-loading in the coming years under a process known as "up-loading" of some programmes.

Governance structures

Canada is a federal country in which many responsibilities have been decentralised to provinces. The country is divided into ten provinces and three territories with a wide range of surface and population. Every province is constitutionally autonomous with parliamentary and governmental structures while northern territories remain under federal constitutional authority, governed by federally appointed commissioners, but with elected assemblies and executive councils. The province is the main sub-national government level in Canada, and has extensive authority over municipalities. Municipal governments are created by provincial legislatures that determine how to organise the institutions and how to elect local executives. As a result, there are large differences in municipal roles in the various provinces and traditionally, Canadian municipalities have little power and little fiscal resources compared to other federations. The federal government has no right to interfere with municipal matters without provincial consent. Especially in case of Québec, the provincial government strictly enforces the constitutional jurisdiction of provinces in order to remain the sole authority to deal with municipalities. Federal-provincial negotiations are required if the federal level plans to distribute financial subsidies to Québec municipalities.

At the outset of creating **RDAs**, the federal government aimed at building strong, effective organisations structured whereby the senior officials, including the Deputy Minister as the president of the RDAs, were as engaged and attuned as possible with regional realities and priorities impacting economic development. This guiding principle has underlined the importance of co-ordination and accessibility between the federal government and regional actors. The high level of federal decision-making presence in the region fosters more direct collaboration and partnership with key public stakeholders. An intrinsic part of the RDAs is advocacy on behalf of the region at the national capital in Ottawa. While the RDAs' headquarters are in the region, they have offices in the national capital that play a role in monitoring and influencing the federal policy agenda. For example, if a national department is moving forward with a new policy or programme that will have an impact on economic development in the region, the RDA is mandated to ensure that their regional priorities and concerns are considered in the federal policy and decision-making process.

At the federal level, ministers are expected to consider the territorial aspects of the programmes and policies of their portfolio. However, given the size of the country, Canada has a convention of "**regional ministers**", *i.e.* appointing ministers who have regional responsibilities and represent interests of their respective regions. Ministers combine their regular (sectoral) portfolio duties with their regional political roles. Their role is more wide-ranging than the development mandate of RDAs and other departments. Regional ministers are designated by the Prime Minister and play an important role in co-ordinating regional or provincial issues with the federal government's activities. There is also a two-way communication role. While influencing federal spending and programming to recognise regional dimensional concerns, regional ministers also communicate the decisions of the Cabinet to the regions. Additionally, it is often the case that the regional minister is given the mandate for the RDA in his/her respective region, because it is a useful adjunct to the minister's other regional responsibilities. Historically, Canada's regional minister system has had varying degrees of visibility and different supporting structures (regional committees, regional offices, etc.).

Federal regional councils, comprising the senior officials for the federal departments and agencies in each region, play an important role as an executive forum, which aim to collaborate at a regional (provincial) level on horizontal programmes and policies of the federal government (*e.g.* official languages). However, they possess neither executive powers nor programme delivery responsibilities.

To overcome fragmentation and increase the efficiency of municipal services, amalgamations of urban municipalities into metropolitan municipalities has been promoted. Some of those new metropolitan municipalities have more inhabitants than entire provinces. In Canada, numerous municipal consolidations took place in the mid- to late 1990s, including metropolitan areas of Halifax (1996), Toronto (1998) and Montreal (2002). **Special agencies, joint boards and commissions** are popular. They provide specific services to groups of municipalities. Various types of appointed or elected boards for the provision of services operate outside the municipal structure for a single function such as hospitals.

Performance monitoring: Programmes are evaluated on a regular basis in federal departments and agencies, which are responsible for developing and implementing ongoing performance measurement strategies for their programmes, and for ensuring that credible and reliable performance data are being collected to effectively support evaluation. Rolling five-year departmental evaluation plans to support policy, programmes, and expenditure decision making are required. RDAs, like other national departments, participate in the public reporting process, which includes parliamentary tabling of yearly reports on plans and priorities for the coming year, as well as past-year performance reports. These reports focus on the outcomes and results of activities instead of on the activities themselves.

Notes

1. Originally two agencies (the Atlantic Canada Opportunities Agency [ACOA] and Western Economic Diversification Canada [WED]) were established in 1987. In the following years, the Federal Economic Development Initiative for Northern Ontario (FedNor) and the Canada Economic Development for Québec Regions (CED-Q) were added. In 2009, two new agencies (the Canadian Northern Economic Development Agency [CanNor] and the Federal Economic Development Agency for Southern Ontario [FedDev Ontario]) were created. Every region of Canada is now federally represented by an RDA.
2. Canada has a history of federal-provincial contracts, dating back to the general development agreements (GDAs) in the 1980s, setting development objectives and priorities agreed on by both federal and provincial authorities. These types of agreements have now largely disappeared, although some small agreements remain in western Canada.

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Further information/main sources

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Canada's Rural Partnership, *www.rural.gc.ca/RURAL/*.

Chile

Table 2.5. **Chile**

Country structure	• Unitary, four levels of government (national, 15 regions, 53 provinces, 345 municipalities)
Problem recognition	• Regional disparities • Dependence on a few sectors in limited regions
Objectives	• Regional competitiveness • Greater equity • Stronger democracy
Legal/institutional framework	• Regional development strategies • Regional Agendas for Productive Development
Spatial orientation	
Urban policy framework	
Rural policy framework	• Strategy for Territorial Economic Development for 2006-10
Major policy tools	• Planning agreements (*acuerdos de programación*) • National Fund for Regional Development • Competitiveness Innovation Fund • National Innovation Strategy (2007)
Policy co-ordination at central level	• Co-ordination by Sub-secretariat for Regional and Administrative Development (Subdere) • Territorial Management Programme • Integrated Territorial Programme
Multi-level governance between national and sub-national levels	• Planning agreements • Regional Development Agency • Territorial Management Programme
Policy co-ordination at regional level (among sectors)	• Regional Development Agency • Regional government • Territorial Management Programme
Policy co-ordination at regional level (geographic)	• Regional government
Evaluation and monitoring	• Management Improvement Programme (PMG) • National System of Municipal Indicators
Future directions (currently under discussion)	• Decentralisation (recently approved constitutional reform on regional government including the direct election of regional councils)

Regional problems

Regional disparities in GDP per capita are substantially higher than in most OECD member countries and are closely associated with large disparities in labour productivity. Territorial inequalities are also severe in access to education, research and innovation, and poverty levels, affecting the degree of regional competitiveness. Chile's economy depends on a few resource-based sectors in a small number of regions.

Chilean regions have not been able to fully utilise their assets and reach their growth potential. This is caused to a great extent by a lack of a place-based approach to regional development: instead of evolving over the last years, the agenda for regional development remains largely determined by national guidelines, constraining the ability to find potential regional productive opportunities based on accumulated place-based assets. At the same time, though several steps to strengthen regional institutional capacities have been taken, a solid governance structure at the regional level is still lacking.

General objectives of regional policy

Chile, historically a strongly centralised country, is increasingly including a regional development perspective on its agenda. The main objectives behind most of the reforms to integrate a regional dimension and behind the decentralisation reforms carried out during recent years are improved regional competitiveness, greater equality and stronger democracy.

Legal/institutional frameworks of regional policy

Chile has made some progress towards a territorial approach to regional development. Some initiatives and programmes (the launching of regional development agencies, programmes such as *Chile Emprende* or *Chile Califica*), and governance reforms (devolution of regional planning to the regional governments) have gone in this direction.

In 2006-07, the central government established **regional development agencies** (RDAs), in order to move towards an integrated approach to regional productive development. Fifteen RDAs have been established in each region. The process was directed by the Chilean Economic Development Agency (CORFO), and was co-financed by the Inter-American Development Bank (IDB). Each established agency is led by the region's intendant and is staffed by representatives of the region's public and private sectors. The agencies' regional strategic councils have representatives from deconcentrated national public bodies, regional private and public sectors. The main roles of RDAs are to facilitate the co-ordination of different programmes and to develop bottom-up **regional agendas for productive development** based on regional assets, strengths and opportunities. The agenda sets the prioritised productive areas and should reflect the regional government's development strategy. Since 2008, at least 10% of national public agencies' resources involved in productive development should finance initiatives from the **Programmes for Improved Competitiveness (PMSc)** of the RDAs. Regional development agencies will be transformed in 2010 into corporations to progressively reduce their dependency on CORFO and increase their relationship with the regional government.

In 2007, responsibility for regional planning was devolved from the Ministry of Planning (Mideplan) to regional governments and specific regional planning divisions were established in the regional governments to manage it. Regional governments are currently responsible for designing **regional development strategies** and territorial planning and for establishing the main socio-economic guidelines for regional development for a period of six to ten years.

As for rural policy, though there is no general framework, the Ministry of Agriculture implemented a **Strategy for Territorial Economic Development** (*Estrategia de Desarrollo Económico Territorial*, EDT) for 2006-10, in order to contribute to the economic development process of rural territories with high poverty rates and to co-ordinate several state agencies regarding rural development.

There are still some institutional obstacles to a territorial approach to development. First, the agenda for regional development is still largely designed at the national level, with insufficient participation by regional governments and institutions in its design and co-ordination. Second, the financial system, which is driven by the National Investment System, is sectoral, hindering it from financing comprehensive initiatives. Third, the reforms and moves towards a territorial approach collide with the lack of an institutional framework at the regional level able to co-ordinate the different policies, instruments and actors involved in economic development on a regular basis.

Main implementation tools

Planning agreements (*acuerdos de programación*) are a main tool for co-ordinating regional and sectoral priorities through multi-level agreements. They are formal agreements between one or more regional governments and one or more line ministries, detailing measures and procedures to be undertaken in projects of common interest over a specified period of time (generally one to five years). These agreements can also integrate other public or private, national, regional or local institutions. Projects are carried out using the resources of both line ministries and regional governments. On average, regional governments contribute one-third of the resources and line ministries make up the remaining two-thirds. They are mostly designed to implement large infrastructure projects.

The **Integrated Territorial Programme (PTI),** under the initiative of the Chilean Economic Development Agency (CORFO), is an example of recent cross-sectoral initiatives to improve co-ordination at the regional level. It aims to foster regional competitiveness by improving co-ordination between the different actors and policies in the targeted territories regarding overall strategy and programme implementation. These regional initiatives have involved co-operation between CORFO and different ministries and the programme beneficiaries may be public or private entities linked to the territory.

Since 2008, 25% of the **Competitiveness Innovation Fund's** resources are assigned to regional governments based on public sector budget law. This fund allocates resources from the newly established mining royalty to improve the innovative capabilities of the different regions. The regional government, taking the national innovation strategy into consideration, defines the use of these resources in projects related to science, applied research, innovative entrepreneurship, human resources, or the transfer and diffusion of technology. Some regional governments have complained about the excessive bureaucracy of the allocation of this fund.

The **National Innovation Strategy** (2007), although it doesn't have a regional focus, sets the main guidelines for promoting innovation and competitiveness over the long term (goals to be reached by 2020). Regional programmes on science and technology, which include 11 scientific and technological centres, directed by the National Commission for Scientific and Technological Research, is in line with the development strategy of the regional government and with national innovation strategies.

Budget structure

Regional governments do not have an independent budget for carrying out regional investment. Investment going to the regions follows two main channels: sectoral investments by line ministries and **regionally defined investments (IDR)**. According to data from Mideplan, the share of central government public investment set aside for IDR accounted for 24% in 2006. In the last ten years, the IDR has more than doubled, largely owing to a rise in the **National Fund for Regional Development (FNDR, *Fondo National de Desarrollo Regional*)**. The FNDR has traditionally sought to compensate for regions' socio-economic and geographical disadvantages. *Subdere* has been closely involved in trying to move the FNDR from a compensatory fund focused on infrastructure provision towards a territorial development fund with more comprehensive goals, though this shift has not yet been fully achieved. The FNDR investment process starts with general guidance offered by the intendant on the regional development plan. In 2007, 83% of the FNDR funds went to municipal projects. Since 2008 initiatives in the development agendas of the RDAs can apply for FNDR financing. Municipal government budgets depend largely on resources from national transfers and on inter-municipal transfers from a municipal equalisation system called the Inter-municipal Common Fund (FCM).

Governance structures

The **Sub-secretariat for Regional and Administrative Development (*Subdere*)** is the national unit in charge of promoting regional development. It is under the Ministry of the Interior and has a great degree of autonomy to deal directly with different ministries on regional policies. *Subdere* focuses its activities on four main areas: the administration of public investment programmes (especially linked to the FNDR and FCM), the design of decentralisation policies, the monitoring and evaluation of the decentralisation process and regional performance, and support for institutional strengthening at the sub-national level.

Chile is divided into 15 regions, which are further divided into 53 provinces and 345 municipalities. In 1992, municipal governments became democratic: mayors and councilors were democratically elected. In 1993, a constitutional law created the regional governments. The decentralised regional governments consist of the intendant and the regional council. Members of the regional council are elected indirectly by the municipal councilmen of the provinces, although constitutional reform approved in October 2009 provides for the direct election of the regional council in order to create a democratically elected body for managing regional development. The intendant, who heads the regional council, is appointed by the President, acting both as co-ordinator of decentralised regional policies and the direct representative of the President of the Republic.

The **Territorial Management Programme (GT)** aims at promoting synergies and convergence among initiatives developed by various public institutions operating in the regions. Each public institution (including regional governments and deconcentrated public agencies) must develop its annual programme of work. This instrument seeks to support the regionalisation and decentralisation process by strengthening the capacities of the regional government and improving the co-ordination process, as part of the national Management Improvement Programme. *Subdere* is responsible for the process nationally and regional governments are in charge of co-ordinating the system in the regions.

Recent developments: Recent decentralisation reforms are part of a general strategy to be implemented from 2007-10, which have five main axes: municipal reform, democratisation of regional councils, devolution of responsibilities to regional and municipal governments, creation of two new regions (2006), and improvement of the skills and institutional capabilities of sub-national governments. In October 2009, President Bachelet approved a constitutional reform on regional government and administration that includes the direct election of the regional council, creating a democratically elected body for managing regional development. The reform includes the election of a President of the Regional Council. It also includes the strengthening of the legal framework of the programming agreements and the recognition of the institutional figure of the metropolitan areas.

Performance monitoring: The **Management Improvement Programme (PMG)** is a system for ensuring the efficient allocation and use of public resources in the public administration. The government adopted the concept of results-based budgeting and gives a performance bonus (a financial incentive) to public institutions based on the fulfilment of several performance indicators. The Territorial Management Programme (GT) mentioned above is one of the basic areas of the PMG. The **National System of Municipal Indicators (SINIM)**, under the initiative of *Subdere*, provides over 150 standardised indicators for each of the municipalities of the country.

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Czech Republic

Table 2.6. **Czech Republic**

Country structure	• Unitary, three levels of government (national, 14 regions [*Kraje*], 6 249 municipalities [*obce*])
Problem recognition	• Increase of intra-regional and inter-regional disparities • Development gap with the EU average
Objectives	• Increase competitiveness, especially reducing the gap with the EU average • Reduce regional disparities; achieve balanced, harmonised and sustainable regional development
Legal/institutional framework[1]	• Act on Support for Regional Development (2000) • Regional Development Strategy • Regional Development Programme at *Kraje* level • Spatial Development Policy/Building Code
Spatial orientation	
Urban policy framework	• Principles of Urban Policy (2007-13)
Rural policy framework[2]	
Major policy tools	• Regional Development Strategy • Strategy of Economic Growth • National Cluster Strategy (2005) • Technology Innovation Centres • National fiscal transfer to regions and municipalities
Policy co-ordination at central level	• Co-ordination of the Ministry for Regional Development including the National Co-ordination Authority • Regional Development Strategy • Spatial Development Policy
Multi-level governance between national and sub-national levels	• Spatial Development Policy
Policy co-ordination at regional level (cross-sectoral)	• Self-governing regions (*Kraje*) • Regional Council of NUTS 2 Cohesion Regions
Policy co-ordination at regional level (geographic)	• Working Group on Urban Development • Micro-regions
Evaluation and monitoring	• Monitoring committees • Internal audit of regional council
Future directions (currently under discussion)	• Framework Position of the Czech Republic on the EU Cohesion Policy after 2013

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The capital city Prague Region, together with *Středočeský kraj* (Central Bohemian Region), can be considered as integrated metropolitan regions and are the main engines of economic growth responsible for bringing the Czech Republic closer to the EU average. Regional disparities in the Czech Republic have gradually increased, particularly between the prosperous capital city Prague Region and the lagging *Moravskoslezsko* (Moravia-Selesia) and *Severnozápad* (Northwest) regions at TL2[1] level. Even more pronounced disparities can be identified at the NUTS 3[2] (TL3) regional level (*Olomoucký kraj*, *Karlovarský kraj*) and micro regional levels within the TL3 regions. The key challenge is to reduce the development gap of the entire nation with the EU average.

General objectives of regional policy

The goal of regional policy in the Czech Republic is balanced, harmonious and sustainable development of all regions, which will improve the quality of life in the regions. The **National Strategic Reference Framework for 2007-13** sets the objective:

> […] to transform the Czech Republic's socio-economic environment in compliance with the principles of sustainable development, so as to make the Czech Republic an attractive location for investment as well as for the work and life of its citizens. By means of incessant strengthening of the country's competitiveness, sustainable development will be reached which will preceed at a pace higher than the EU 25 average. The Czech Republic will strive to boost employment and to pursue balanced and harmonised regional development, which will result in enhancing the quality of life of the country's population.

The four strategic objectives include a competitive economy; an open, flexible and cohesive society (*e.g.* education); an attractive environment; and balanced territory development.

The **Regional Development Strategy (RDS)** of 2007-13 defines the priorities of Czech regional policy, based on the Czech Republic Strategy for Sustainable Development which represents a long-term framework for maintaining the fundamental values and quality of life of the society. The RDS sets out three strategic objectives: development-oriented objectives (increasing economic and environmental potential, competitiveness, and social levels of regions to a level comparable with developed regions of Europe), disparity-oriented objectives (reducing regional disparities with respect to economic and social development and environmental conditions), and an instrumental objective (improving public administration and services). Targeted support is available for structurally disadvantaged regions, economically weak and rural regions, and other regions where it is desirable (*e.g.* cross-border regions and former military bases).

The **Strategy of Economic Growth** identifies development priorities, principles and instruments leading to economic growth and sustainable development in the Czech Republic. It covers and co-ordinates approaches of state executive bodies. Although the strategy is focused on economic pillars, it respects two other main pillars of social and environmental sustainable growth. The document identifies the development priorities for the period 2005-13.

Legal/institutional frameworks of regional policy

The principles of regional policy, including the goals, institutions and structures, were established by **Act 248/2000 on Support for Regional Development** in 2000, and the amended Act of 138/2006 Coll.[3] The act also defined the basic types of regions to be supported (regions with structural problems, economically weak regions, rural areas, and other regions such as former military bases or border areas). From 2000-06, regional development was pursued by two distinct streams of regional policy: national regional policies using the national plan and sources, and policies in line with EU policies through programming documents and EU finances. For the 2007-13 period, the two streams of policies are more integrated, due to the financial difficulty of keeping domestic national policy under the increased need to co-finance EU Cohesion Policy. Regional policy respects four main principles: concentration, partnership, programming and complementarity.

Other acts also have an impact on regional and local development: Act 47/2002 on Support of Small and Medium Enterprises amended 690/2004 Coll.; Act 128/2000 Coll. on Municipalities; Act 129/2000 Coll. on Self-governing Regions; Act 250/2000 Coll. on Budgetary Rules of Territorial Budgets; Act 320/2001 Coll. on Financial Control; and Act 70/2000 Coll. on Investment Incentives.

The **Regional Development Strategy (RDS)** of 2006 is the basic national document defining regional policy. The RDS integrates sectoral and regional approaches and helps to address growing territorial disparities. The RDS includes an analysis of each region, the strategic objectives of regional development, a definition of regions with concentrated state support, and recommendations to the relevant agents regarding regional development. In self-governing regions (*kraje*) at TL3 level, **regional development programmes** (Programme *rozvoje kraje*) were developed, which were accompanied by regional innovation strategies in most TL3 regions.

The **Spatial Development Policy (SPD)** of the Czech Republic is a document drafted by the Ministry for Regional Development based on the Act on Town and Country Planning and Building Code (183/2006 Coll.). The SPD seeks to co-ordinate other policy tools influencing spatial development, such as the Regional Development Programme of particular self-governing regions (*kraj*) and the Development Programme of Municipalities. The SPD intends to foster regional development and impacts on national land-use via policies, strategies, concepts, programmes, development plans and reports on the state of the environment. It deals with national priorities determined with respect to the EU documents, Regional Development Strategy and other documents relating to spatial development. As in the RDS, it specifies development axes, poles of growth and other specific areas such as lagging areas, corridors and areas of transport infrastructure, corridors of technical infrastructure related to development plans (electricity, gas industry, water management, waste management, and long haul land lines).

The **Principle of Urban Policy** is a general document pronouncing views of state and state administration bodies on the standing and importance of cities for economic and regional development in the Czech Republic. It defines the state administration's approach to the programme support of the economic and social development of cities. Though urban policy was very recently presented and tackled as an integral part of the RDS, development dynamics of cities and the volume of EU funds committed to regional and metropolitan development have led the national government to draft a comprehensive cross-sectoral document summarising the main areas and problems of urban development.

Main implementation tools

The development of innovation clusters is a focus of all regional authorities, even though they are still at their initiation stage in some regions. Investment incentives were introduced in mid-2002 to support new projects that support innovation, strategic services and technology centres. The Framework Programme for Support of Strategic Services Projects and the Framework Programme for Support of the Establishment and Expansion of Technology Centres have provided subsidies to selected projects. In 2005, the **National Cluster Strategy** was adopted through the co-operation of universities, businesses and public regional and national authorities. Regionally differentiated support measures are available, including income-tax relief, support for job creation, and support for training and retraining. Business environment support focuses on a range of activities, from basic infrastructure provision to building links between business/research/educational institutions, such as **Technology Innovation Centres** and support for cluster policy through Structural Funds. The Czech Technology Park in Brno (South Moravia) and the Science and Technology Park in Ostrava (Moravia-Silesia) represent initiatives for innovation in the Czech Republic. The **Industrial Zone Programme** allows for support of site infrastructure and land, location being based on investor choice. Since 2009, **investment incentives** for large investors (not necessarily FDIs) are no longer available to large manufacturing plants but only to service or technology centres.

In 2008-09, three programmes were created that directly targeted specific disadvantaged areas: the Programme for the Revitalisation of Areas Previously Used by the Army; the Programme for the Revitalisation of the Countryside; and the Programme for the Revitalisation of Areas Affected by Natural Disasters. At the same time, two traditional programmes that had previously received sizeable regional policy resources were not renewed after 2007: the State Support Programmes to the Moravia-Silesia Region and Northwest Region; and the Programme for Support of Economically Weak Regions.

Impacts of EU regional policy

Important changes were introduced for the programming period 2007-13, shifting the focus from national programmes to EU-supported programmes in the framework of EU Cohesion Policy. Structural Funds and Cohesion Funds are major policy tools that contribute to regional policy objectives. For 2007-13, the Czech Republic has been allocated EUR 26.7 billion (EUR 25.9 billion under the Convergence Objective and EUR 0.4 billion under the Regional Competitiveness and Employment Objective which only covers the Prague Region). The main priorities include environment, which includes energy (EUR 10 billion); transport (EUR 7.7 billion); R&D and innovation (EUR 5 billion); and SME support (EUR 1.5 billion). The Czech Republic negotiated the fifth largest financial allocation of EU funds and the largest per capita allocation among all member countries. For the first time, the Czech Republic has chosen to deliver substantial funding through regional operation programmes (ROPs). Population coverage of the aid area fell from 100% to 88.6% (because of non-coverage of the Prague TL2 Region). In spite of an increased proportion of co-financing from EU sources (up to 85% of project costs), it is still difficult to ensure the remaining 15% from Czech sources.

Budget structure

The bulk of regional and local income comes from revenue designed and collected at the national level: value-added tax, income tax on individuals and legal corporations, and state transfers to the self-governing regions and municipalities. In 2008, self-governing regions had total revenue of CZK 137.1 billion, of which 36.8% was tax revenue and 59.8% was transfers from the state. Municipalities had total revenue of CZK 272.9 billion, of which 56.6% was tax revenue and 28% was transfer (subsidies) from the state. Regions receive a modest share of tax allocations compared to amounts retained from the state budget or redistributed to municipalities. In 2008, the Ministry of Finance introduced a new local government finance system and several other adjustments to benefit small villages and rural areas in general.

Governance structures

The **Ministry for Regional Development** has assumed strong overall responsibility for domestic regional policy, including regional business support, housing, zoning and building regulations, regional investment, tourism, and the development of urban and rural areas (Competence Law-Act 272/1996 Coll.). In the process of elaborating and implementing the RDS and state regional development programmes, the ministry co-ordinates regional policies and the activities of other ministries which have regional impacts (the Act on Support for Regional Development). It is also in charge of the co-ordination, management and supervision of Structural Funds and Cohesion Funds. However, sectoral ministries still play a role in the delivery of some regional assistance, making overall co-ordination complex. To improve co-ordination and integrate a regional approach into sectoral policies, annual evaluations of sectoral regional disparities have been introduced.

The Constitution of the Czech Republic (1993) considers regions as units of self-government. However, the establishment of regions was actualised by EU regional policy incentives. In 2001, public administration reform created 14 NUTS 3 (TL3) **self-governing regions** (13 regions [*Kraje*] and the capital city of Prague). Each region has its own elected regional assembly, governor and government. The decentralisation process transferred responsibilities from the state to the regional governments. Social services, health care and regional transport became especially important responsibilities of regional governments. The majority of the staff is devoted to these state-devolved tasks while only small teams are assigned to regional development matters. Regional assemblies co-ordinate development in their territory by elaborating, implementing and monitoring regional operational programmes (at NUTS 2 level) and regional development programmes such as the Rural Renewal Programme. In the process, they co-operate with the central government and co-ordinate municipality interests in the territory. They evaluate intra-regional development disparities and provide loans to municipalities and other legal entities in the region. They establish legal entities such as **regional development agencies** to support regional development and promote partnerships among the public authorities, private sectors and NGOs. Regional development agencies exist in a variety of legal forms and membership, and were created even prior to the designation of EU region categories. However, their role in the development of regional strategies is more *ad hoc*.

Furthermore, for planning EU Cohesion Policy and the use of EU Structural Funds, the Act on Support for Regional Development (amended in 2006) instituted the so-called eight **Cohesion Regions** at NUTS 2 (TL2) level by administrative mergers of 14 regions. The **Regional Council** of the NUTS 2 Cohesion Regions was established in 2007, with their offices becoming the managing authorities of EU Regional Operation Programmes. The regional assemblies at NUTS 3 level elect regional councils at NUTS 2 level. Regional councils of the Cohesion Regions do not dispose of permanent staff and meet alternately in different locations, as there is no regional capital. The councils have set up regional development committees, associating the public and private sectors and civil society, with the purpose of monitoring the application of the regional operation programmes.

The Czech Republic used to be divided into 77 districts, including three statutory cities with the status of districts (Brno, Ostrava and Plzen), and the city-district region of Prague. They lost their status as governments after the 2000 reform but remained territorial divisions for deconcentrated branches of state administration. Since 2003, 205 Municipalities with Extended Competence (unofficially named "Little Districts") took over most of the administration of the former District Authorities. Some of these are further divided into Municipalities with Commissioned Local Authority. They are not directly elected.

The Czech Republic has more than 6 000 municipalities, the majority of which are small villages. Municipalities are responsible for the sustainable development of their territory. Due to the small size of many municipalities, voluntary groupings of municipalities known as **micro-regions** (more than 200) have been encouraged by the government to share development aims and projects. This initiative is based on the Law on Municipalities (1992). Voluntary groupings of municipalities, founded on a bottom-up approach, rested on a very flexible legislative framework, with the degree and nature of co-operation between municipalities left pretty much to their initiative. The New Act on Municipalities of 2000 laid down some basic rules obliging certain groupings to modify their acts of association. The act defines the groupings as legal entities, with only municipalities as members. The possible areas of co-operation are specified (*e.g.* education, social care, health, culture, environment, tourism). These micro-regions appear more and more as natural partners for the NUTS 3 regions, generally organised around one or two small- or medium-sized town centres. The central government has also taken fiscal measures to encourage amalgamation, though with limited success up to now. In urban areas, **Working Groups on Urban Development** are organised to co-ordinate urban development.

Recent developments: At the moment, no significant institutional changes are planned. Instead, attention is being focused on improving the quality of institutions. A key objective has been to simplify the administrative process involved in policy development and delivery, particularly in relation to regional operational programmes. Some implementation responsibilities have moved from central to regional levels. Sub-national input into the implementation process is being strengthened, potentially involving their stronger role in resource allocation, project generation and selection. Discussion on the future of regional policy, economic policy and social cohesion after 2013 started in 2007. The Ministry for Regional Development submitted the first draft of the **Framework Position of the Czech Republic for the period following 2013**, which describes economic and social cohesion on the whole territory of the Republic.

Performance monitoring: Reporting and evaluation requirements are now being applied to domestic RDS, which lie outside EU evaluation and reporting requirements. The Ministry of Finance established **monitoring committees** that supervise the implementation and the quality of programmes. The **Department of Internal Audit**, which has been established within each Office of Regional Council, is an independent unit responsible for the transparency of project selection and the management of financial flows as well as financial reporting.

Notes

1. The OECD's current territorial database (covering 31 member countries excluding Slovenia) encompasses yearly time-series for around 40 indicators of demography, economic accounts, labour market, social and innovation themes at two sub-national administrative levels: that of large regions (TL2 = some 300 such regions) and small regions (TL3 = approximately 1 800 regions).
2. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).
3. "Coll." is an abbreviation of the legal term meaning Collection of Laws in which all acts are published.

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Denmark

Table 2.7. **Denmark**

Country structure	• Unitary, three levels of government (national, five regions, 98 municipalities)
Problem recognition	• A number of relatively remote and geographically scattered pockets of underperformance
Objectives	• Competitiveness focus in Business Development Act • Reducing differences between regions
Legal/institutional framework[1]	• Business Development Act (2005) • Regional Development Plan • Business Development Strategy
Spatial orientation	
Urban policy framework	• Comprehensive urban policy for the Capital Region
Rural policy framework[2]	
Major policy tools	• Business Development Act • Fiscal equalisation scheme
Policy co-ordination at central level	• Ministerial Committee for Regional Policy
Multi-level governance between national and sub-national levels	• Partnership agreements • Co-ordination of Regional Growth Forum
Policy co-ordination at regional level (cross-sectoral)	• Co-ordination of Regional Growth Forum
Policy co-ordination at regional level (geographic)	• Municipality merger • Establishment of directly elected regional council
Evaluation and monitoring	• Standardisation of data collecting system • Regional Competitiveness Report
Future directions (currently under discussion)	

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

Disparities in income between the capital area and the rest of the country are small by international standards, and have become even more uniform in recent years. While regional unemployment levels are more balanced, a number of relatively remote and geographically scattered pockets of under-performance remain. Though equity considerations remain relevant with respect to less well-off peripheral areas, all regions should contribute to maximising national economic growth.

General objectives of regional policy

In the 1990s, regional policy was regarded as a means to increase regional and national efficiency. The Regional Growth Strategy in 2003 marked a strategic turning point with more focus on inter-regional equity. It defined the central government's regional development goal as maintaining Denmark's "leading position within Europe as one of the countries with the smallest differences between regions" through "specific initiatives…that target peripheral areas to state they are not cut off from the growth occurring in other parts of the country". In the context of the 2005 Business Development Act, this stress on equity co-exists with a strong growth-oriented agenda focusing on the role of each region in maximising its contribution to national growth. The strengthened growth-oriented elements and continuing equity-oriented elements are crystallised into six priority areas under the 2005 Business Development Act: innovation, ICT, entrepreneurship and human resources (growth-oriented aspects), and tourism and the development of peripheral areas (equity-oriented aspects). These changes reflect a desire to develop a more effective policy approach that is both comprehensive (involving all regions) and selective (with funding favouring peripheral areas). Since 2009, this desire is also reflected in the Danish green growth strategy which ensures that a high level of environmental, nature and climate protection goes hand in hand with a modern and competitive agriculture and food industry to benefit all regions of Denmark including peripheral areas.

Legal/institutional frameworks of regional policy

A structural reform of local government in 2007 reduced the number of local authorities from 275 to 98 and the number of intermediate units from 14 *Amter* to five large regions. The new regions have directly elected councils. The **2005 Business Development Act** and the **2007 structural reform of local government** granted the five newly created regions with statutory responsibility for regional economic development policies, a policy area which previously had no legal basis at the sub-national level. The regions have a significantly smaller area of responsibility than the former *Amter*, as some tasks were transferred to the municipalities or to the state. Health care is their main responsibility. They also have some regional development tasks; however, they do not have many competences regarding which policies should be implemented to increase regional competitiveness and in practice they rely on national and local governments to implement policies according to the regional strategy. Regions' tasks are financed partly from state grants, partly from smaller contributions from the municipalities in the region, but the regions have, unlike the former *Amter*, no right to raise taxes. The municipalities were, on the basis of a minimum population threshold

of 20 000, asked to organise their new structure themselves as well as to set the envisaged deadlines.

The regions are obliged to establish one or more partnership-based regional growth forums. The **Regional Growth Forum**, statutory regional partnership bodies under the Business Development Act, develops and decides on a regional Business Development Strategy, accompanied by an action plan. Six Regional Growth Forums (five regions and the island of Bornholm, which forms part of the Capital Region) are platforms in which regional players from business, trade unions, education and local government (elected representatives at the local and regional levels) are represented in a partnership-based framework. The forums provide the elected regional councils with strategic inputs with respect to economic development and regional innovation. New legislation has also given the forum a key role in the administration of the Structural Funds. Hence, under the new approach to regional policy, the vast majority of projects have been supported by the new regional growth forum. Forum funding comes from the local authority and central government, requiring co-ordination. The new institutional set-up centred on regional growth partnerships has integrated local, regional, national and EU economic development activities within a single programme-based policy structure, in contrast to the previous regime where the different levels of government operated in a much more segregated manner, often through separate organisational channels as well as voluntary and informal sub-national initiatives.

Each region must develop a **regional development plan**. These plans define the regional vision concerning the main challenges and go well beyond regional economic development. The plan does not have the power to impose directives. Its purpose is to create dialogue among municipalities and other stakeholders in the region. The plan is subject to an extensive consultation process with the municipalities in the region, central government and regional actors including citizens, since implementation of the plan is dependent on their co-operation.

The **Business Development Strategy** aims to integrate economic development activities across all levels (local, regional, national to European, and private) within a single, programme-based policy structure which also takes national government priorities into account. The strategy constitutes the basis for the Growth Forum's allocation of EU Structural Funds and domestic regional funds for business development. Although the subsidies and project funds represent a small part of regional governments' budget, they have certain leverage for stimulating certain activities and development that fit well into the framework of the business development strategies for the region.

The 2006 National Planning Report states that cities play a key role in the knowledge economy and that a competitive Capital Region is a prerequisite for Denmark's development. It also underlines the need to strengthen the competitiveness of the Capital Region. However, there hasn't been a national urban policy since the Ministry of Urban Affairs and Housing was abolished in 2001. A comprehensive set of urban development policies have been split up into urban issues and assigned piecemeal to different ministries. As for the Capital Region of Greater Copenhagen, "the Finger Plan 2007" is the current national planning directive issued by the Ministry of the Environment. It is the most recent edition of a series of different Finger Plans that go back more than 50 years. The Finger Plan regulates urban development by requiring that the green wedges, the protected land interspersed between "fingers" of urban development, be reserved for non-urban recreational use. The Ministry of the Environment is working with municipalities to minimise new development in the open countryside during the 2009-13 planning period.

Main implementation tools

Central government provision of regional aid ended in 1991. Since then, regional policy has mainly consisted of national initiatives with regional effects and Structural Funds programmes. Regional support takes the form of framework measures in support of the business environment and the six priority areas defined by the Business Development Act. A diverse array of projects have been supported and vary from region to region. This is in line with the new policy objective that policy responses should reflect region-specific challenges and priorities. A new regional map has designated peripheral areas that benefit from targeted support. At least 35% of expenditure on regional development projects under the Structural Funds programme (EU funding) must benefit the designated peripheral areas which account for around 10% of the national population (funding is 60% needs-based and 40% population-based).

Impacts of EU regional policy

For 2007-13, Denmark has been allocated a total of EUR 613 million of Cohesion Policy funding (EUR 510 million under the Regional Competitiveness and Employment Objective which covers the entire country and EUR 103 million under the Territorial Co-operation programmes). Essentially this includes R&D and innovation (EUR 350 million), training and education (EUR 143 million), and SME support (EUR 120 million).

Budget structure

The move to introduce a new approach to regional policy was based on the premise that the aggregate level of expenditure on regional economic development should remain unchanged at around EUR 130 million per annum. In 2007, this assumption was met. The sum of central government, regional, local, private and European funding involved in projects supported by the regional growth forum was EUR 128 million. Funding favours peripheral areas. As for sub-national finance, sub-national expenditures and tax revenues represent a high percentage. Regional governments are financed by national and local government grants within the region. An equalisation scheme compensates municipalities with a low tax base and high costs.

Governance structures

The **structural reform of 2007** was aimed at improving the performance of sub-national governments by increasing their size. At the local government level, this was achieved by a process under which municipalities were requested to co-operate with each other or to amalgamate in order to reach a population of at least 20 000 per local government unit. The resulting wave of municipal amalgamations reduced the number of municipalities from 271 to 98. At the regional level, the 16 existing counties were replaced by five regions. The rationale was that regional government should focus on the provision of public health services and that it was necessary to increase the size of regional government units in order to increase effectiveness.

Growth Forum initiatives are co-ordinated with national initiatives such as the Globalisation Strategy via the Danish Growth Council. Increasing use is made of inter-governmental annual contracts (**partnership agreements**) as a form of policy regulation, to align regional initiatives with national policy goals. In early summer 2007, partnership agreements between central government and each of the six regional Growth Forums were signed for the period 2007-09. These entailed both a general political commitment to shared goals and specific undertakings that the two sides should attempt to achieve. The agreement sought to link the national Globalisation Strategy and regional growth strategies, and contained initiatives from both strategies. The regional Growth Forum does not have any statutory implementation responsibilities. This obliges them to co-operate with national and local bodies if they want to receive funding for their strategies. Another measure to align regional and national interests while ensuring efficiency is the competitive element of funding the forum. Ten per cent of the Structural Funds in Denmark is set aside for competitive allocation in order to encourage innovative and inter-regional projects which are allocated according to thematic calls for projects from the Danish Growth Council.

The new regional policy framework has increased co-ordination along three axes. First, horizontal co-ordination between Structural Funds programming and domestic interventions has been enhanced at the national and sub-national levels, as the same statutory bodies, the regional Growth Forum, are in charge of recommending or declining project support. The **Ministerial Committee for Regional Policy** was set up to ensure that activities that serve growth, employment and regional development are co-ordinated. It is headed by the Minister of Economy and Business Affairs with members from eight other sectoral ministries. Second, vertical co-ordination between the national and regional levels has increased, not just through legislative regulation but also via the subsequent institution of partnership agreements between central government and each of the six regional Growth Forums. Formally separating policy design roles undertaken by the forum and delivery functions undertaken by arm's-length bodies (often established by groups of local authorities) has boosted accountability. Third, vertical co-ordination between the regional and local levels has increased through the role of local authorities as prominent supporters of regional development measures as funders and also, to some extent, as implementers.

Performance monitoring: The regional Growth Forums and the Danish Authority for Enterprise and Construction have developed a series of tools that helps to strengthen the regional culture of evaluating individual projects. The **standardisation of data collection systems** on regional economic performance aims to improve the knowledge base, facilitate evaluation and increase efficiency. The performance of regions is being measured against national targets for education, entrepreneurship, innovation and R&D. Regional targets are defined in the regional business development strategies. The Danish Authority for Enterprise and Construction has developed a database of regional statistics, which measures performance as well as framework conditions based on indicators for regional growth, entrepreneurship, innovation and education. The indicators are published yearly in the **Regional Competitiveness Report**. In co-operation with Statistics Denmark, a so-called register-based evaluation tool is being developed related particularly to Structural Funds projects. The purpose is to continuously monitor actual employment, export and turnover in the companies participating in Structural Funds projects.

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Finland

Table 2.8. **Finland**

Country structure	• Unitary, two levels of government (national, (regional), 342 municipalities [*kuntaa*] in 2010)
Problem recognition	• Remaining regional disparities • Ageing society and the impact on regions
Objectives	• Improving regional competitiveness • Strengthening regional viability (through multi-centred territorial structure) • Reducing regional disparities • Solving specific regional challenges (*e.g.* social exclusion)
Legal/institutional framework[1]	• Act on Regional Development (1652/2009) • Government Decree on Regional Development (1837/2009) • Government Decision on Regional Development Targets (2008) • Regional Strategic Programme
Spatial orientation	• Urban (poly-centric territorial structure) • Continuing prioritised aid to peripheral areas
Urban policy framework	• Urban Policy Committee • Government Decision-in-Principle on Urban Policy (2009)
Rural policy framework[2]	• Rural Policy Committee • Rural Policy Programme (2009-13) • Government Report on Rural Policy (2009) • National Strategic Plan for Rural Policy • Rural Development Programme (2007-13)
Major policy tools	• Centre of Expertise and Regional Centre programmes • Regional Cohesion and Competitiveness Programme (COCO) • Business Development Aid and Development Aid for the Business Environment • Annual regional development funding
Policy co-ordination at central level	• New Ministry of Employment and the Economy • Regional Development Advisory Board (a new negotiation committee from 2010) • Regional proofing • Rural Policy Programme and Rural Policy Committee
Multi-level governance between national and sub-national levels	• Regional strategic programmes • Regional Development Advisory Board (a new negotiation committee from 2010) • Regional Management Committee • Budgeting process of Regional Council and sector ministries
Policy co-ordination at regional level (cross-sectoral)	• Regional strategic programmes by regional councils
Policy co-ordination at regional level (geographic)	• Framework Act for the Restructuring of Local Government and Services (2006) • Voluntary amalgamation • Joint municipal board • Kainuu Region (pilot project)
Evaluation and monitoring	
Future directions (currently under discussion)	• ALKU administrative reform project • Government Decision-in-Principle on Rural Policy

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

3. Finland has island policy frameworks including the Island Committee, the Government Decision-in-Principle on Island Policy (2009) and the Government Decree on Island Municipalities and Islands Part of Other Municipalities.

Regional problems

Regional disparities have not increased recently, but problems remain in the north and east, and there are major differences in development prospects between urban centres and more remote peripheral areas. The municipal level increasingly faces challenges. The changing demographic situation is a major concern. The Finnish population is ageing faster than anywhere else in Europe. This situation has a negative impact on sparsely populated areas which are also confronted with out-migration. Overall, urban areas, regional centres and their surrounding areas continue to have better development prospects, while more sparsely populated peripheral regions face the most challenges in terms of industrial development, standards of living and welfare. The perception of regional problems has evolved from the historical targeting of narrowly defined problem regions to broader policy measures focusing on the development and competitiveness of the entire country. The needs of larger urban and rural regions have become increasingly important. Key future challenges for long-term regional development include the changing demographics, the availability of a knowledgeable workforce, globalisation, the development of information technology and climate change (with a special focus on urban areas and energy).

General objectives of regional policy

The national government set out regional policy goals for the four-year term from 2007-11 in the **Government Decision** of 2008. These were grouped under three headings: improving the national and international competitiveness of the regions (focusing on regional expertise, innovation, labour supply and entrepreneurship); strengthening regional viability and reducing regional disparities (supporting a multi-centred regional territorial structure by strengthening development conditions in sparsely populated areas and improving interactions between urban and rural areas); and solving specific regional challenges (relating, for example, to sudden structural changes, social exclusion, migration flows, service provision and sustainable cross-border growth). These goals broadly carry on the previous policy objectives and reflect both efficiency and equity concerns as well as an interest in the territorial structure of the country. The objectives set out in the Government Decision co-ordinate the regional development strategies of sectoral ministries and provide guidance for the regional councils in the development of their regional strategic programmes (revised by the end of 2008). The Ministry of Employment and the Economy defines the goal of regional policy:

> […] regional policy aims for balanced regional development throughout Finland. Together, the national regional policy and European Union regional policy form a whole which promotes the equitable and independent development of different parts of the country while also supporting less developed areas. Regions are developed with programme based regional policy.

Legal/institutional frameworks of regional policy

Regional policy has evolved since the 1960s from being industry-focused and planning-oriented to the present programme-based regional development policy, and from being targeted and mostly aid-based aimed at territorial balance towards broader regional development measures in support of business and innovation environment in the regions.

Responsibility for the delivery of regional policy is shared among the state and municipalities, with regional councils acting as regional development authorities. In 2007, the **Act on Regional Development**, the framework legislation for regional policy in Finland, was revised to simplify and improve policy delivery.

The 2008 Government Decision highlighted the importance of "broad" policies for regional development, but "narrow" regional policy continues to focus on the weaker regions by strengthening their economy and service structure, as well as their ability to respond to sudden structural changes. Spatial targeting differs depending on the type of region: for regions with the largest urban centres, the focus is on developing such centres and their surrounding linkages aiming at polycentric development through the Centre of Expertise and Cohesion and Competitiveness Programmes and the new metropolitan policy, while regions outside such centres benefit from specific policy measures such as the Rural Policy and Island Development Programmes. The government's decision to set up a Science and Technology Policy Council, a key body chaired by the Prime Minister, demonstrates the powerful political drive towards innovation policy.

Regional planning comprises a regional plan, a regional strategic programme and a regional land-use plan. The **regional plan** indicates the desired long-term regional development (20 to 30 years). The regional strategic programme and regional land-use plan (10 to 20 years) are interconnected and contribute to the implementation of the regional plan. The **regional strategic programme** is prepared in accordance with the regional plan, the National Strategic Reference Framework and the Government Decision at the national level. The programmes have a strong innovation component. The Regional Council develops regional strategic programmes and annual implementation plans, with the joint effort of representatives of state bodies in the region and social partners.

As for urban policy, the Regional Centre Programme was an initiative to develop 35 city regions. Finland introduced an ambitious urban policy in 2005 aimed at increasing the competitiveness of the nine largest Finnish cities by enhancing their individual specialisation in order to foster a better division of labour in the country. These policies also aim to ensure better co-ordination of existing programmes, by integrating all facets of urban development (infrastructure, housing, social policy, innovation and economic policies). In 2007, a tailored and comprehensive Metropolitan Policy for the Helsinki Region was prepared and launched. In 2008, the **Government Decision-in-Principle on Urban Policy** was approved in order to define common objectives for developing urban areas.

As for rural policy, the **Rural Policy Committee (TYR),** established as the Rural Advisory Committee in 1992 and recognised by law since 2000, assists the government in drawing up and implementing rural policy outlines. The multi-year **Rural Policy Programme** is an action programme of the Rural Policy Committee. It makes proposals to ministries, organisations, municipalities and educational institutions. Its goals include improving strategic planning in rural areas and enhancing the role of rural areas in innovation policy. The 31-member committee, led by the Ministry of Agriculture and Forestry, represents seven ministries and 20 other organisations (public, private and third sector). Importantly, the committee is linked to the Finnish Parliament through the Rural Network of the Parliament. Ministries involved must report annually the actions they have undertaken for the Rural Policy Programme. Reports are presented to the Rural Policy Committee, the Rural Network of the Parliament and the Ministerial Group on Rural Policy. The **Rural Development Strategy** and the **Rural Development Programme for Mainland Finland 2007-13** set the objectives and resources of EU and

national funding (with a total budget of around EUR 7 408 million) for the viable and active countryside. The implementation of the programme is decentralised to the regional and local level in accordance with the regional rural plans and national legislation (the Act on Aid for Rural Development, 1443/2006).

Main implementation tools

The **Centre of Expertise Programme,** one of four Special Programmes derived from the Regional Development Act began in 1994 and has been renewed for a third phase (2007-13). The programme started as an urban policy initiative, with the first eight centres being in the largest urban regions. Then the programme was expanded to smaller urban centres in 1999 and 2003. The new programme operates through 21 centres (with 45 fields of expertise) which will constitute 13 nationally significant competence clusters, each of which promotes enhanced co-operation between four to seven centres. From the beginning, the key concept has been to exploit the triple helix model of collaboration between universities, industry and government. A new cluster-based approach aims to improve co-operation between selected knowledge clusters, to enhance regional specialisation and to focus more on internationalisation and the promotion of SME growth. The programme is managed by an inter-ministerial committee (administered by the Ministry of Employment and the Economy), which launches a competitive tendering process to select projects. State funding is relatively small and matched by a contribution from the region's local partners (private sector, local and regional authorities), but it has an impressive leverage effect of more than ten to one. Local science park companies or technology centres often serve as the governance structure to manage each centre.

The **Regional Centre Programme**, also one of the four Special Programmes originally established in 2001, is in a new phase (2007-10). The objective is to develop a polycentric regional structure based on a competitive capital city region and a network of regional centres. It is a programme oriented to strengthen the linkages between cities and their neighbouring regions in 34 regional centres. Each region must have at least one centre. The Ministry of Employment and the Economy is responsible for the national programme co-ordination. Municipalities apply for the programme in groups, and decide jointly on the management and co-ordination of the programme for their own region. The national government finances up to 50% of the costs, while applicants (group of municipalities) have to finance the remaining 50%. The ministry orients the funding to the regional councils (as joint municipal bodies), which supervise the implementation of the programme in their region. Substantial projects are financed by other sources such as EU Structural Funds. The programme was renewed mainly for urban competitiveness, but only until 2010 when it will merge with the Rural and Island Programmes.

The **Regional Cohesion and Competitiveness Programme (COCO)** (2010-13) combines previously separate special programmes (the Regional Centre Programme, the Rural Policy Programme and the Island Development Programme) and targets all regions, focusing on economic development policy and broad innovation policy. The programme also aims at improving programme-based approaches through new co-operative working methods and networking, the promotion of good practice and learning, better forecasting of local developments, and partnership working. A call for programme proposals in 2009 attracted participation from most Finnish municipalities (grouped into 52 COCO programme areas).

The **Act on Business Development Aid** in 2007 reduced the previous four regional aids to two. The main impetus behind this was to simplify the system, make it more efficient and improve its impact. A new **Business Development Aid** merges the previously separate investment and SME development aid and allows a single application form to be used to support investment-related and other business development activities. **Development Aid for the Business Environment** was extended to increase the flexibility for supporting SME development and exchanging co-operation with educational and research institutes.

Impacts of EU regional policy

The development of the NSRF has helped to ensure that national and EU programmes are more aligned through, for example, the establishment of a **National Co-ordination Committee**, though national regional policy remains the priority. A new **Structural Funds Law** was introduced in 2007 to simplify and improve policy delivery. Under the new regional aid guidelines, Finland has seen less funding and lower aid ceilings. Aid area population coverage was cut from 42.3% to 33%. This brings a more focused approach to aid, more restrictive large firm support, and more award decisions taken regionally. The main focus of support remains as before in the east and north.

Budget structure

Annual regional development funding is allocated to the regional councils (except for Kainuu, which is treated separately). The funding supports measures which meet the regional development objectives of the government. Part is for the implementation of the priorities set out in each region's Strategic Regional Programme and the implementation plan, while the remainder is reserved for the special programmes delivered in the region (*e.g.* Centre of Expertise Programme, Regional Centre Programme). Since 2005, total annual regional development funding has been of the order of EUR 30 million, though it was over EUR 35 million in 2004. In comparison, regional business aid funding was over EUR 108 million in 2007. This represents a significant fall from 2006 levels (almost EUR 150 million) but is similar to funding levels in both 2003 and 2004. While in policy terms the main focus is on regional competitiveness, most regional policy funding targets the weaker regions. Thus, for example, over two-fifths of business aid (by far the most significant regional policy budget) flowed to the east (comprising 12% of the population), with a further fifth to the north (10% of the population) in 2007. As for sub-national finance, Finnish municipalities heavily rely on municipal taxes to finance their responsibilities, accounting for almost half of its revenue sources.

Governance structures

At the central level, at the beginning of 2008, the main responsibility for regional development was transferred from the Ministry of the Interior to a newly created **Ministry of Employment and the Economy**, merging the units for regional development from the Ministries of Trade and Industry, Labour and the Interior in pursuit of a more simplified central-level structure for overseeing regional policy interventions. The ministry prepares national regional development targets for a fixed period, in practice for its own term of office. The ministry requires sectoral policy makers to clarify their regional strategies and has been assessing regional impact (**regional proofing**) since 2004.

Ten key sector ministries must define regional development strategies concerning their field of responsibility, which fit into the Act on Regional Development guidelines defined by law and the nine regional development targets adopted by government in 2004. The regional proofing is projected to be repeated periodically and sectoral policies in different administrative organisations have increasingly gained a more regional perspective than they previously had.

A **Regional Development Advisory Board** (a so-called regional development negotiation committee) has been set up to co-ordinate the preparation and monitoring of ministries' regional budgets, to summarise all budget proposals, and to organise negotiations between the central level and the regional councils, as well as to oversee any other co-ordination tasks with respect to regional development. A similar committee has been set up for aligning the implementation of EU-funded programmes and national programmes. These negotiation committees for domestic and EU regional policy were combined in 2010 based on the new Regional Development Act. From 2010 onwards, Regional Management Committees/Secretariats will move from focusing solely on the Structural Funds to co-ordinating the Funds with domestic activities.

In 1995, 15 Employment and Economic Development Centres (TE Centres**)** were established to co-ordinate the implementation of three state authorities' tasks within the labour market, industrial development and agriculture fields. TE centres managed EU funds at the regional level. New **ELY Centres (Centres for Economic Development, Transport and the Environment)** were created in the beginning of 2010. ELY Centres, as a result of ALKU reform, are responsible for the tasks previously handled by TE Centres, Regional Environmental Centres, Regional Road Administration and some of the tasks of the State Provincial Offices.

Twenty **regional councils** are the leading actors of regional development and are statutory regional bodies financed by the member municipalities and constituted by representatives of the municipalities elected at municipality elections. Regional councils have also been delegated management and implementation responsibilities for Structural Funds programmes. The revised Regional Development Act has further increased co-ordination by increasing levels of co-operation between the central and regional levels, particularly in the allocation of regional funding by increasing regional inputs into funding allocations. The **regional strategic programmes** play an important role in aligning EU, national and local priorities and are increasingly used for co-ordination with sectoral ministries' plans in the budget negotiation process via the new budget planning mechanism.

The regional state administration reform entered into force on 1 January 2010. The tasks and functions of the State Provincial Office have been transferred to the new state regional authorities and the regional councils. The new state regional authorities (**the regional state administrative agencies (AVI)** and **the Centres for Economic Development, Transport and the Environment (ELY))** began operating on 1 January 2010. AVIs took over the following tasks from the former state provincial offices: evaluation of basic services; tasks in the fields of social welfare, health care, public health, education, competition and consumer administration, rescue services, and preparation for emergency conditions. ELYs have been transferred the following tasks from the former state provincial offices: tasks in the field of education and competence, Structural Funds, libraries, sports and youth administration, school construction, international affairs and traffic administration. The ERDF-related tasks that were formerly carried out by the

Department for Education and Culture in the state provincial offices, have been transferred to the regional councils.

In each region, a **Regional Management Committee**, a collaborative forum for the state's regional administration and the regional councils, generates consensus on regional programmes and their implementation plans. Sectoral ministries are required to justify the impact of their funding on regional development, and to take annual regional implementation plans into consideration. Ministries can only submit their budget proposals for government approval after negotiation with the regions.

In **Kainuu**, one of the least developed regions in Finland, a pilot project has been implemented to transfer power and responsibility from the municipality to the regional government level in order to improve the provision of service at reduced costs. The Joint Authority of the Kainnu Region was established based on the Act on Kainnu Region Experiment, which is planned to last until the end of 2012.

Municipalities have recently faced pressure to improve efficiency. In several instances, the size of municipalities was thought to be insufficient to cope with economic pressures resulting from out-migration, ageing and the increased costs of health service provision. **Voluntary amalgamations** reduced the number of municipalities from 452 in 2000 to 342 in 2010. The national government has provided incentives to encourage municipality amalgamations. Municipalities also organised **joint municipal boards** which engage in more specialised services. Membership is generally voluntary for the municipalities, with financial support from the national government and with independent legal status. Fields exist where membership is compulsory, such as for specialised health care (21 regions) and for regional development and physical planning (19 regions). Reforms initiated under **the PARAS-project** in 2005, aim to strengthen municipal and services structures, including potential mergers of municipalities, reform of municipal funding and state co-funding, and a clear division of responsibilities between municipalities and the state.

The **Framework Act for the Restructuring of Local Government and Services** of 2006 was implemented in 2007. This act sets the framework for municipalities to propose mergers and answer questions about how they will deliver services in the long run. All municipalities were obliged to report their future plans for service provision at the end of August 2007 and plans for municipal mergers by the end of 2007. Mergers were to enter into force beginning in 2009. According to the act, a municipality should have at least 20 000 inhabitants in order to provide basic health care services and 50 000 inhabitants for secondary vocational education. The threshold can be reached by merger, the organisation of a joint municipal board, or by buying services from larger municipalities. To encourage the merger, the central government transfers extra financial resources to merged municipalities. The act also focuses on spatial planning in the largest urban regions in Finland. The municipalities in the Capital Region and 17 other regional urban centres have developed common plans for land use, housing, traffic, and specialised regional services.

Recent developments: The latest **reform of regional governance (ALKU),** initiated in 2007, aims to create a more efficient and accountable regional-level state organisation by merging regional offices and concentrating them in larger regions through 2010. As a result of the ALKU reform, 15 ELY Centres were established and began operation in 2010. ELY Centres are state regional bodies in charge of economic development, labour force, competence and cultural activities, transport and infrastructure, and environment and natural resources. ELY Centres work in close collaboration with regional councils.

The interim report of the ALKU administrative reform project (2008) suggested that as of 2010 further decision-making power should be given to the regional councils, including a stronger co-ordinating role for regional strategic programmes; the use of regional development funding; the transfer of certain Structural Funds responsibilities from the existing State Provincial Office; and various other responsibilities related to regional education needs, traffic and environmental planning in the region. The report also proposed improved co-ordination between the implementation plan of the regional strategic programme and the target agreement process (negotiation between the regional state authorities and ministries regarding the region's budgeting needs).

Further changes to the **Act on Regional Development** were made in 2010. The role of regional strategic programmes has been further enhanced and measures to improve horizontal and vertical policy co-ordination have been further promoted. The steering role of central government has been supported with the development of a longer term strategy for regional development, which provides a basis for domestic and EU co-funded regional policy until 2020.

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France

Table 2.9. **France**

Country structure	• Unitary, four levels of government (national, 25 regions [*régions*], 100 departments [*départements*], 36 683 municipalities [*communes*])
Problem recognition	• Restructuring of rural and old industrial areas • Increasing overall competitiveness • Sub-regional disparities
Objectives	• Developing attractiveness and competitiveness through regional potential development • Preserving territorial cohesion • Sustainable development
Legal/institutional framework[1]	• Framework Law on Regional Planning and Sustainable Development (1995, modified in 1999) • Law of 2004 on Local Responsibilities and Freedoms • National Sustainable Development Strategy (SNDD) and *Grenelle de l'environnement* (two laws)
Spatial orientation	• All-area focus, especially potential area focus • Designated aid area for lagging regions
Urban policy framework	• Urban Social Cohesion Contracts (CUCS) • Strengthening and Simplifying Inter-municipal Act (EPCI, 1999) • Urban Solidarity and Development Act (SRU, 2000)
Rural policy framework[2]	• National Plan for Rural Development • Rural Revitalisation Act (2005) • Rural revitalisation zones • *Pôles d'excellence rurale*
Major policy tools	• State-region project contracts (CPER) • Competitiveness poles and other cluster policies • Regional Policy Grant (PAT) • Sites or local contracts of revitalisation • Regional Territorial Planning Master Plan • Regional Economic Development Master Plan
Policy co-ordination at central level	• Co-ordination by DATAR • Study and Monitoring Group of State-Region Project • CIADT (Inter-ministerial Committee for Territorial Development) • PASER Monitoring Committee • Ministry of Rural Space and Territorial Development • State Secretariat (Capital Region), minister (territorial development)
Multi-level governance between national and sub-national levels	• State-region project contracts (CPER) • Co-ordination of *Préfet*, Project for State Regional Strategy (PASER) • PASER Monitoring Committee
Policy co-ordination at regional level (cross-sectoral)	• Co-ordination of regional *préfet* • Co-ordination of regional councils
Policy co-ordination at regional level (geographic)	• Public Establishment for Inter-Communal Co-operation (EPCI) ✓ *Communauté de communes, Communauté d'agglomération, Communauté urbaine* ✓ *Syndicat d'agglomération nouvelle* • *Pays* • Territorial Coherence Scheme (SCOT)
Evaluation and monitoring	• National and regional evaluation councils • Establishment of territorial observatory (2005)
Future directions (currently under discussion)	• Climate change and energy scheme (*Loi Grenelle 2*) • Territorial reforming law

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The perception of regional problems has shifted over time from a rather uniform approach in the 1970s to a more differentiated view since the 1980s, which focuses on regional differences and unique regional potential. There is an increasing view that the Capital Region's potential as a growth engine should be promoted, especially considering its place in the world. A further and more differentiated issue relates to rural areas which have, in the past, been confronted with out-migration and a high dependence on agriculture. Moreover, the restructuring of old industrialised areas is not yet complete. Debates revolve around how best to increase the country's overall competitiveness while, at the same time, responding to particular disparities at the sub-regional or municipality level. In the growth-oriented approach, GDP per capita remains one of the most important indicators for analysis, although R&D expenditure and regions' scientific and technological competences are also being monitored, particularly in the context of a necessary polarisation of innovation to improve competitiveness. Infrastructure (transport and information and communication [ICT] infrastructures), sustainable development and urban-related cohesion are also perceived as territorial challenges.

General objectives of regional policy

In France, there has been a long-standing objective to preserve territorial cohesion, which has been supported over the years by the European Union's stress on economic and social cohesion, by the decentralisation process which has enhanced the scope of local authorities, and more recently, by the globalisation agenda with its focus on regional potential and the growing attention on sustainable development. Policies have been generally redistributive, to ensure balanced development across the country, particularly with respect to areas facing economic and social difficulties.

Regional policy has traditionally had very broad coverage, involving the application of a territorial approach to a range of policy fields, not least through the co-ordination activities of the inter-ministerial delegation DATAR (*Délégation à l'aménagement du territoire et à l'attractivité régionale)*. Regional policy has progressed from *aménagement du territoire*, which mainly involved infrastructure and investment-related interventions, to *développement du territoire* which focuses on regional potential.

Today, territorial policies pursue the following goals: regional competitiveness and attractiveness, promotion of sustainable development, and social and territorial cohesion. Innovation-related and competitiveness-oriented measures have received more attention under strengthened global competition, as seen in the designation and operation of competitiveness poles and a new cluster policy. In this context, the main principles of regional policy are now developing attractiveness and competitiveness through regional potential development and growth-enhancing measures that reflect EU and international pressures, and preserving territorial cohesion through indirect equalisation mechanisms based on creating wealth across regions.

In the context of the global crisis, a report commissioned by the French President to develop "a dynamic strategy for territorial development" (so-called Saint-Étienne Report) was published in June 2009. This report advocates the continued transformation of the economy into an "entrepreneurial knowledge economy" based on green growth and

emphasises the role of local development strategies and the concept of a "strategic state" responsible for guaranteeing favourable framework conditions in the long term.

Legal/institutional frameworks of regional policy

The 1995 **Framework Law on Regional Planning and Sustainable Development** (*Loi d'orientation pour l'aménagement et le développement durable du territoire*, LOADDT) (modified in 1999) sets out long-term outcomes for public services in eight fields (higher education and research, culture, health, information and communications, passenger and good transport, energy, and natural and rural spaces). The accent is on the following objectives: mobilising territories for development, compensating for the disadvantages of rural and urban areas, bringing together rural territories and urban areas across the "*pays*", developing metropolitan areas of international significance, increasing co-operation between players at the national and local levels, and taking greater account of the European dimension.

Since the beginning of this century, France has also seen an unprecedented revival in planning. French regional planning relies today almost exclusively on the regional level, given the responsibilities of the elected regional councils and the role assigned to the regional prefects. The regional council draws up its own medium-term planning document, the **Regional Territorial Planning Master Plan** (*Schéma régional d'aménagement du territoire*, SRADT). It contains a forward-looking analysis and a regional charter. The Economic and Social Council, comprised of business and labour representatives and academics, support the drafting process. The Law of 2004 on Local Responsibilities and Freedoms gave the regions the right to draw up a **Regional Economic Development Master Plan** (*Schéma régional de développement économique*, SRDE), in collaboration with other local governments, inter-communal structures and local economic players. A convention is agreed between the state, the region and, where relevant, other local authorities in which the objectives of the plan are defined as well as the financial resources contributed by each of the parties. The Act on Urban Solidarity and Development of 2000 provided newer planning tools for urban and rural development projects. Examples include the **Territorial Coherence Scheme** (*Schéma de cohérence territorial*, SCOT), which covers the entire catchment areas.

Central government also sets out its priorities in its Territorial Planning Directives (DTA). Central government supports, in partnership with local authorities, a series of instruments (in particular land corporations [*Établissements publics d'aménagement*]) or public planning entities which have a mandate to strengthen specific areas of European importance or allow the redevelopment of regions that have undergone rapid economic change.

Since the end of the 1990s, France has taken an approach based more on the competitiveness of urban areas, partly due to their increasing economic weight. In 2003, the government decided to undertake a policy of active support for the *grandes métropoles* or major urban "agglomerations", which more closely match the boundaries of functional economic areas than the area covered by agglomeration contracts. The Framework Law of 2003 on Urban Renewal grants five-year tax exemptions to small enterprises that set up business in free urban zones (ZFUs) and sensitive urban zones (ZUS). While urban policies are still based on the zoning approach, the role of cities as growth motors has been enhanced through metropolitan co-operation.

The French rural development policy forms part of the National Strategy for Sustainable Development. It shares the same goals: reconciling economic development, social justice and the protection of health and the environment through solidarity between generations and among the various parts of the country. The **National Plan for Rural Development** aims at sustainable rural development and includes not only traditional measures such as compensatory indemnities for deprived areas but also the integration of forestry measures, the importance given to the agro-environment, and the creation of the **territorial exploitation contract** (CTE) with the intention of encouraging agriculture to become multi-functional. A number of special types of aid for rural regions have been put in place since 1995, based on the **rural revitalisation zones** (ZRR). These special areas cover almost one-third of the national territory. The **Law on Rural Revitalisation** (2005) aims to consolidate the existing systems by strengthening certain incentive measures, and improvises the institutional framework so as to better co-ordinate existing mechanisms.

Impacts of EU regional policy

France will benefit from more than EUR 14 billion European regional aid (EUR 4.2 billion for R&D and innovation, EUR 1.4 billion for entrepreneurship and SMEs and EUR 1.1 billion for transport and accessibility). More than 60% of Structural Funds will be devoted to Lisbon priorities, with a particularly striking increase in investment for R&D and innovation. In line with EU regulations, the zoning approach under the Structural Funds programmes ended, while the regional aid map took on a very different form partly in response to its much-reduced population coverage from 34% to just 18.4% of the national population and the lower award ceilings under the regional aid guidelines. Another reason the aid map was modified was the decision to decentralise the designation process, which resulted in what have been termed designated “ribbons”. It is of note that France retained just over EUR 250 000 of its quota for areas facing future industrial crises. Following defence industry cuts, two such areas (combined population 70 000) were designated in June 2008, reflecting the perceived importance of regional aid in zones experiencing economic change.

Main implementation tools

State-region project contracts (*Contrat de projet État-région* – CPER) have been in operation since 1982 and are important tools in regional policy in terms of planning, governance and co-ordination. They are characterised by their broad thematic coverage and cross-sectoral nature, with a territorial approach being applied across diverse policy fields including industrial, environmental, and rural issues. The DATAR functions as the main national partner of the regions in developing and implementing such planning documents. The President of the Regional Council and Prefect as the representative of the central government make the contract. The co-financing of interventions is seen as an important co-ordination mechanism. These contracts contain a regional component (territorial strand). The territorial strand is used to finance intra-regional territorial projects. Among the project contracts (26 regional, 11 inter-regional), 20 regions have opted for signing a territorial strand. With an eye to subsidiarity, the regional prefects have been mandated to draft these strands with the regional councils and the other partners. A **Study and Monitoring Group of State-Region Project Contracts**, composed of members from each sector and steered by the DATAR and the Directorate of the Budget, now has a formal role. The group meets monthly, thus ensuring regular

contact and allowing it to identify potential problems. The DATAR is also in charge of passing on regional requests to the group.

A new generation of state-region contracts was introduced in 2007 alongside the 2007-13 Structural Funds programmes, in order to increase links between French and EU regional policies. The new contracts have the same timeframe as the EU operational programmes, are based on a joint territorial analysis, and have integrated systems for monitoring. Similar to the Structural Funds, regions can decide that funding be de-committed 18 months after approval for projects if no commitment has been made. Contracts increased their focus on the Lisbon and Gothenburg agendas. They reflect three priority areas: the promotion of territorial competitiveness and attractiveness, the environmental dimension of sustainable development, and social and territorial cohesion. The emphasis on sustainable development has grown, with a consultation process launched in 2007 (*Grenelle de l'environnement*). Priority is given to soft functions (*e.g.* education, research and development) as well as infrastructures other than roads.

In the economic field, the medium-term **site contract** (valid for three years) is designed as a framework for facilitating and networking an active partnership between all stakeholders affected by economic restructuring with major local impacts. This instrument comes under the policy to support economic change. It is geared to specifying the role and financial commitment of each stakeholder, optimising the existing mechanisms and co-ordinating the implementation of the revitalisation process. Beyond the financial input, the main strength of this instrument is its drive to secure synergy among the stakeholders involved.

The **Economic Recovery Plan** significantly accelerated spending under the state-regions contracts (CPER) in February 2009 and provided support via a National Territorial Renewal Fund (FNRT) for areas affected by industrial restructuring when no other restructuring measures were available.

Innovation-related measures have received increasing attention against the background of the Lisbon Agenda and ongoing discussions about industrial relocation processes. With respect to support for the business environment, the most prominent feature is the **competitiveness poles** initiatives which, in line with industrial policy objectives, aim to concentrate innovation-related efforts in a collaborative way to achieve national and international excellence. The poles are organised around associations of firms, research and higher education centres committed to a partnership approach based on a joint development strategy which aims to release synergies via co-operative innovative projects. Local governments are involved in their management and provide services for the firms located there.

The new government has also carried forward the flagship competitiveness poles initiative. Although there are 71 poles, including five designated in 2007, project selection has channelled most funding to relatively few. Sixteen poles are of international rank, while the rest have a national or regional focus. In an evaluation report in June 2008, the networking, SME involvement and visibility of the poles were viewed positively, but there were some concerns about their different performances. Responding to this concern, it was recommended that 39 poles be extended unconditionally for three years, 19 be extended for three years but subject to a funding review after 18 months, and 13 be evaluated after one year. The strategic approach to the poles will be consolidated via new "performance contracts" and the new calls in the field of eco-technologies.

Public initiatives have been aimed at fostering projects that promote clustering and co-operation between firms in traditional sectors through **local production systems (*systèmes productifs locaux* – SPL)** since 1998. The national policy was renewed in 2009. The government launched the next step with the *grappe d'entreprises* policy. This new policy promotes co-operation between a network of SMEs and human resources, innovation institutions as well as competitiveness poles. It also concerns sectors not so involved in technology and R&D activities such as services and culture.

The main regional aid, the **Regional Policy Grant (*Prime d'aménagement du territoire* – PAT)**, is administered by the CIALA (*Comité interministériel d'aide à la localisation des activités*). The PAT rewards job creation with a premium for every job created. It was revised, with new decrees for the PAT industry and services and for the PAT R&D and innovation in 2007, taking the new aid map into account, with an almost 50% cut in the population quota. The map is now focused on areas of growth potential. PAT for industry and services targets major strategic projects in zones experiencing economic change and where the maximum aid per job has increased. The PAT for R&D and innovation is closely linked to competitiveness poles and is now available throughout France (including Paris and Lyon which were previously ineligible) and where the aid per job can be increased for strategic or networking projects. A 2008 circular underlined the complementary role of regional aid as part of broader regional development support and clarified the definitions of project types where job criteria had been removed. A decree of 2009 responded to the economic crisis, by lowering investment minima and reducing job requirements.

There have been designated aid areas since the 1950s. However, most policy measures (including state-region contracts, competitiveness poles, and the all-region spread of the regional aid map) have a nationwide spatial development focus rather than a problem region orientation. In recent years, a notable development has been the policy orientation towards regional potential as well as problem areas. This is seen in the designation of areas of potential such as competitiveness poles and **rural excellence centres** alongside problem-oriented zoning such as the designation of **urban, rural, industrial restructuring, mountains, coastal areas,** etc. Challenges of industrial restructuring zones are tackled not only through traditional responses to job losses but also through developing longer term strategies linked to regional competitiveness.

Budget structure

Funding for territorial development is spread across ministries. An overall annual budget of around EUR 4 billion is allocated to cross-sectoral policies related to territorial development. In contrast, only some EUR 0.8 billion fell within the specific "territorial policies" budget heading in 2007. Since 2008, there have only been two programmes under this budget heading, the more significant of which relates to the "impulse and co-ordination of territorial development" and is managed by the DIACT (now DATAR). It consists of the **National Fund for Territorial Planning and Development** (FNADT, just over EUR 320 million in 2008), the PAT (EUR 33.5 million) and running costs and studies (EUR 8.2 million). The FNADT is mainly to implement CIADT decisions and finance inter-regional activities. It should be noted that the funding framework for the PAT has fallen since 2000 but is currently relatively stable. A budget of EUR 38 million was earmarked for 2009 and the following two years. The DATAR is also in charge of co-ordinating the allocation of state funding under the 2007-13 state-region project

contracts (EUR 12.7 billion) and Structural Funds programmes (around EUR 12.6 billion).

Central government grants have a fiscal equalisation objective. More than half of the financial transfers to sub-national governments go to operating transfers (essentially the **global operating grant** [*Dotation globale de fonctionnement* – DGF]). The DGF can be broken into two major parts: a lump sum to finance local public services based on demographic factors and surface area and to offset certain tax revenues; and an equalisation portion that includes the urban solidarity grant (DSU), the rural solidarity grant (DSR) and the national equalisation grant (DNP). The bulk of central government transfers to the sub-national levels are non-earmarked. However, freedom is constrained by constitutional responsibilities for providing local public services.

Governance structures

The dispersal of funding for regional policy across different ministries makes the co-ordination of state action indispensable. Inter-ministerial co-ordination is an established part of the regional policy system, promoted by DATAR since 1963. The **DATAR** is directly linked to the Office of the Prime Minister and receives information from different ministries and the regional prefects regarding their regional and strategic priorities. The **CIADT** (*Comité interministériel à l'aménagement et au développement du territoire*) prepares the decisions of the Council of Ministers in the field of spatial planning, bringing together experts in the field from relevant ministries. The Secretary-General of government organises inter-ministerial meetings where the various ministries agree on central government strategy in each region.

Following a change of government in 2007, responsibilities for regional development moved from the Ministry of Interior to the new Ministry of Ecology, Energy, and Sustainable Development. This was in line with the overarching objective to reconcile sustainable and economic development based on reinforced, strategic inter-ministerial co-operation. After the municipal elections in 2008, regional policy interventions became more specific. Then, regional policy moved to the **Ministry of Rural Spaces and Territorial Development** (*ministère de l'Espace rural et l'Aménagement du territoire*) in June 2009. A minister responsible for territorial development (leading to greater efforts to support rural areas) was appointed, and a State Secretariat for the Development of the Capital Region of Paris was created.

Since 1982 when the decentralisation process began, executive powers have gradually been decentralised to the presidents of directly elected regional councils and councils of the departments. The first step or Act I of the decentralisation process brought a profound change to the French political and administrative system. The new model reinforced the region's role (at the expense of the departments) and drasticly reduced the number of communes through highly structured inter-communalities. Act II of the decentralisation process began with legislation in 2003 and 2004. The region is now recognised in the Constitution and the financial autonomy that sub-national governments already enjoyed was reinforced. Economic development is essentially assigned to the regions, as is territorial planning. The growing profile recently attached to so-called *grandes régions* such as *Grand Paris* and *Grand Nord-Est* has fuelled a debate about the size of French regions.

At the communal level, the mayor is both the chief executive of the commune and an agent of the central government, with respect to certain powers (*e.g.* civil registry, organisation of elections). The central government maintains a local presence not only through the prefects (regions and departments) but also through the deconcentrated territorial offices of the various ministries placed under the authority of the prefects and which form the highly developed network of administrative offices at the regional, interdepartmental and sub-departmental level. The **prefects (*préfets)*** are appointed by the President of the Republic and represent the state within the departments and regions. The regional prefect is responsible for co-ordinating policies for services provided by the various ministries at the regional level (*e.g.* education and training, economic development, infrastructure, public health, agriculture, environment, employment, culture).

The regional prefects are also responsible for defining state strategies at the regional level, which were added in the process of deconcentration. The prefect submits a strategic proposal document that has been known since 2004 as the **Project for State Regional Strategy** (*Projet d'action stratégique de l'État en région* – PASER). The co-ordination role of regional prefects has increased and, in some regions, a reindustrialisation commissioner (*Commissaire à la réindustrialisation*) is appointed to work alongside the regional prefect. A National PASER Monitoring Committee, co-chaired by the minister responsible for state reform (the Budget Ministry) and the Ministry of Rural Spaces and Territorial Planning, serves as the framework in which the central ministers define state strategy in each region, in collaboration with the regional prefect.

Inter-communality is a long-standing tradition in France given the large number of small communes. In 1966 the urban community was created to address the problems associated with large metropolitan areas. The urban community is a highly integrated form of co-operation to which a dozen different responsibilities must be transferred. Four urban communities have thus been created without consultation, in the large metropolitan areas of Bordeaux, Lille, Strasbourg and Marseille. However, inter-communality in France has been historically characterised by a voluntary linking of communes. In 1992, the first inter-communal structure with their own taxing power appeared as the city communities (*communautés de ville*). That same year saw the institution of the communities of communes for rural territories.

There are now three types of **inter-communal co-operation (EPCI)**: ***communautés de communes*** (groupings of small rural communes), ***communauté d'agglomération*** (which contains over 50 000 inhabitants grouped around a central city with at least 15 000 inhabitants, are obliged to impose the single business tax, and replace *communautés de ville*) and finally the ***communauté urbaine*** (which must have 500 000 people). The communes must transfer to *communauté urbaine* six blocks of responsibilities including economic, social and cultural development, housing and urban planning, city government policy and public services, and environmental protection and improvement. The *communautés d'agglomération* are required to exercise four blocks of responsibilities relating to economic development, land-use planning, social balance and housing, and city government policies. The *communautés de communes* are not subject to such a strict allocation of responsibilities.

The EPCI is different from the sub-national authorities in the following way: the specialisation principle, indirect representation, and compulsory state (prefects) involvement in their creation. The role of EPCIs has been growing and was reinforced by the decentralisation law of 2004. In France, approximately 90% of municipalities have

been integrated under some kind of inter-municipal structure. Councils of the EPCI incorporate representative municipalities and typically the president of the board is the mayor of the central city.

The fiscal resources of the EPCI consist either of budgetary contributions from the communes or their own tax revenues from the establishment of a common business tax. Inter-municipal co-operation has been supported by powerful incentives from the state. To encourage the communes to team up, the state decided to increase the basic grant, the DGF, to local authorities forming an EPCI. It also awards the inter-communality grant to communes that accepted the principle of the Single Business Tax (TPU). Those measures are based on three acts (1999): the Framework Law on Regional Planning and Sustainable Development (LOADDT), the Act on Strengthening and Simplifying Inter-municipal Co-operation, and the Act on Urban Solidarity and Development (SRU). Based on these acts, councils for *communautés d'agglomération* and *communautés urbaines* must approve a so-called territorial project, which is a five- to ten-year plan for infrastructure, economic development, social housing, culture and the environment at the metropolitan level.

Other than those inter-municipal co-ordinations, there is a framework called "***pays***" since 1995. *Pays* are project territories whose purpose is to transcend administrative boundaries so that territorial strategies can be formulated in accordance with a functional area logic, characterised by geographical, economic, cultural or social cohesion. A *pays* may be formed at the initiative of municipalities or groups of municipalities, which must then adopt a charter. The charter focuses on reinforcing reciprocal solidarity between the city and the countryside. A sustainable development council, involving local economic, social, cultural and association representatives, is created and involved in preparing the charter. Most of these *pays* receive national funding on a competitive basis. The operational expenses are financed by the member municipalities, with investment for projects receiving multi-annual support within the framework of the CPER (*Contrat de projet État-région*). Most *pays* comprise less than 30 000 inhabitants.

Recent developments: Although long-term decentralisation is believed to have produced gains in autonomy and new opportunities for local authorities, inter-commune groupings and regions, there is a broad consensus that the process has been limited by constitutional issues and questions of local finance. The issue of financial compensation for extended competences remains controversial and related shifts in financial and human resources have stretched the capacities of sub-national authorities. The issue was further highlighted by the government's announcement of a zero growth rate for state transfers from 2008 to achieve budget stability. More widely, the deepening of decentralisation has triggered debate about the competences of different administrative tiers which are closely interlinked due to the standard practice of cross-financing. The continued operation of sectoral state services at sub-national levels puts the onus on territorial planning and co-ordination.

A general review of the efficiency of public administration is under way. A process of improving public policy delivery led to the 2009 Balladur Report on the reform of local authorities which aims to clarify and rationalise the competences and financial responsibilities between administrative tiers, limit cross-financing, enhance the status of large municipalities (*métropoles*), and encourage inter-municipal co-operation, in the context of decentralisation and the state budget deficit. At the regional level, three separate state services (infrastructure, industry and research) have been merged under the auspices of the Ministry of Ecology. Transparency is also increasingly

important. A recent review of public policy led to the adoption of a law that formalises parliamentary scrutiny and evaluation of government policies for increased transparency.

Performance monitoring: Until recently, evaluation was not used systematically in regional policy. However, evaluation and monitoring is becoming more important, influenced by and increasingly aligned with the Structural Funds model. A major development is the institutionalisation of monitoring and evaluation methods for the new state-region contracts in close alignment with the Structural Funds. These developments are supported by progress in the field of territorial analysis and forward planning. A **territorial observatory** (*Observatoire des territoires*) was established in 2005 as a step towards comprehensive and standardised data collection. The observatory is managed by DATAR and gathers data collected at European, national, regional and sub-regional levels. National and regional evaluation committees composed of experts, regional authorities and state representatives, have also been created.

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Germany

Table 2.10. **Germany**

Country structure	• Federal, four levels of government (national, 16 states [*Länder*], 301 rural districts [*Landkreise*], 11 993 municipalities [*Gemeinden*] and 111 district-free cities [*Kreisfreie Städte*])
Problem recognition	• Ongoing regional disparities between old and new *Länder*, ongoing disparities of living standards within old and new *Länder*
Objectives	• Uniformity of living standards (Constitution) • Mitigate structural weakness of new *Länder* and parts of the old *Länder*
Legal/institutional framework[1]	• *Land* level regional policy making • Co-ordination role of the federal government, especially through the Joint Task for the Improvement of Regional Economic Structure (GRW) and its multi-annual Co-ordination Framework as well as for EU Structural Funds
Spatial orientation	• Lagging regions (mainly new *Länder*)
Urban policy framework	• National Policy of Urban Development
Rural policy framework[2]	• Co-ordination of the Joint Task for the Improvement of Agricultural Structure and Coastal Protection (GAK) and its Four-year Plan
Major policy tools	• GRW and EU Structural Funds aid and funding • Investment Allowance Scheme • Funds of Urban Development
Policy co-ordination at central level	• Co-ordination of the Joint Task for the Improvement of Regional Economic Structure (GRW) and its multi-annual Co-ordination Framework • Co-ordination of EU Cohesion Policy implementation • Management of EU and domestic policy by the Ministry of Economy and Technology • Funding of urban development and co-ordination by the Ministry of Transport, Building and Urban Affairs
Multi-level governance between national and sub-national levels	• Co-ordination of the Joint Task for the Improvement of Regional Economic Structure (GRW) and its multi-annual Co-ordination Framework • Co-ordination of EU Cohesion Policy implementation • Sectoral groups for co-ordinating policies between federal and state levels (*Bund-Länder-Gruppen*)
Policy co-ordination at regional level (cross-sectoral)	• Co-ordination between regional ministries
Policy co-ordination at regional level (geographic)	• Planning regions
Evaluation and monitoring	• External audit commissioned by the Ministry of Economy and Technology
Future directions (currently under discussion)	

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The core problem in Germany is ongoing structural socio-economic disparities between old and new *Länder*, despite some positive developments in recent years which have facilitated closing the gap in major urban areas in the east. The new *Länder* not only continue to lag behind the rest of the county on key indicators such as GDP per capita and unemployment, but have also experienced significant demographic decline in recent years, partially due to the out-migration of younger, educated people. Some areas in the old *Länder* also face specific structural problems, for example, due to long-term industrial or agricultural restructuring.

Due to overall demographic change, more and more communities and regions in the old *Länder* also face shrinking. As these processes in the new *Länder* started earlier and were stronger, their programmes to address the problems of ageing and the declining population may act as a role model in the future. The current economic crisis has an impact on regional unemployment levels. Though the number of unemployed persons has recently decreased in some *Länder* – particularly in the new *Länder* such as Brandenburg for 2008 and 2009, the unemployment rates for the old *Länder*, particularly in the south and south-west of Germany remain lower than those identified for the new *Länder*.

Recent years have seen extensive discussions about the rationale, focus, geographic orientation and level of funding for regional policy. There are also debates about the extent to which public investments in infrastructure and key services are sustainable in rural areas facing out-migration. As all levels of government have experienced several years of fiscal constraint, questions have arisen over the resources allocated to the new *Länder*, both for investment purposes and in the form of inter-regional and interpersonal social transfers. Though these debates have been intense, no major changes focusing on structurally weak regions have resulted so far.

General objectives of regional policy

Regional policy is important for achieving balanced economic development and reducing disparities in employment and living conditions across regions. This reflects the constitutional commitment of ensuring the "uniformity of living standards" and the view that equity and efficiency goals are complementary, in that improved performance of weaker regions is perceived to benefit the economy as a whole. More generally, the federal government is committed to support the economic development of the new *Länder*, both by ensuring appropriate broad macroeconomic conditions and policies, and also by providing specific additional assistance. German regional policy mainly focuses on the structural weaknesses of the new *Länder* and parts of the old *Länder* facing adaptation problems.

Regional policy objectives date back to the establishment of the Joint Task for the Improvement of Regional Economic Structure (GRW) in 1969.[1] This gives regional policy a strong equity orientation though there is also a significant competitiveness component to policy under many *Land* programmes. The basic aim of the GRW is to reduce the regional disadvantages faced by structurally weak regions and thus to facilitate their participation in broader economic development processes and to reduce overall developmental disparities. Further, regional policy is seen to contribute to Germany's growth and employment policy and to enhance its effectiveness, particularly by

enhancing aggregate economic growth in structurally weak regions as well as by facilitating structural change through the creation of permanent jobs. The GRW Framework also emphasises that German regional policy has medium- to long-term aims and focuses on the supply side of the economy. Additionally, the National Policy of Urban Development deals with the strengthening of cities and urban structures as motors and centres of regional economy as well as guarantees with public infrastructure.

Legal/institutional frameworks of regional policy

Under the German Constitution, *Länder* are primarily in charge of designing and implementing regional policy strategies, including selecting projects, setting aid rates and establishing priorities. The federal government is precluded from the direct delivery of most programmes. The main role of the federal government is to co-ordinate certain regional policy activities between the *Länder*. The first stage of the federalism constitutional reform in 2006 considered the allocation of tasks between federal and *Land* authorities, among others, the validity of joint federal-*Land* activities (preferring to keep policy actions and responsibilities separate wherever possible). It confirmed the role of the **Joint Task for the Improvement of Regional Economic Structure (*Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'* – GRW)** as a core instrument of regional policy and one of only two remaining joint federal-*Land* tasks.

In response, Article 91A of the Constitution was revised with a new text emphasising the co-ordinating role of the GRW, and the federal law on the GRW was reformulated in 2007. The GRW is a joint federal-*Land* co-ordination framework which is used mainly to set a commonly agreed framework for regional economic development policy and to finance direct aid to business and business-oriented infrastructure. Key attributes of the GRW are: a transparent indicator-based system for assessing regional problems; a consensus-based co-ordination framework which allows equal problems to be treated equally; a systematic rules-based approach to awarding or granting aid; facility for co-ordinating EU and national regional policy interests; and the ability to provide a co-ordinating framework for other policy fields with spatial effects. The GRW is jointly financed by federal and *Land* authorities.

The previous annual GRW Framework Plan (the 36th Plan) was replaced by a **multi-annual Co-ordination Framework** in 2008, though the broad thrust of policy and its underlying philosophy remained unchanged. The framework defines the areas and activities eligible for GRW support; the conditions, type and intensity of funding; the provision of federal resources to *Länder*; and procedures for reporting and evaluation. The current framework has been in effect since 2009 when it was approved by the federal Parliament.

The GRW Co-ordination Framework reflected the revised regional aid map and rules agreed with the European Commission for 2007-13, while also taking into account the new Structural Funds programmes for 2007-13. The GRW allocates some 70% of its resources to business aid, with the remainder supporting business-oriented infrastructure, business consultancy, workforce training, R&D support and networking projects. Some minor changes were made to the GRW in 2008 by decision of the GRW Co-ordination Committee, with a stronger focus on bottom-up initiatives and the mainstreaming of funding for co-operation networks and cluster initiatives which are set up by local actors

as well as for projects in non-profit-making, business-oriented research institutions (outside universities).

Spatial planning is mainly a responsibility of the *Länder*. The federal level sets the framework and defines principles according to the Spatial Planning Law (*Raumordnungsgesetz* – ROG), but it is always obliged to take regional and even local planning into consideration. Article I of the ROG gives a clear idea of this two-way approach, called the "counter-current principle" (*Gegenstromprinzip*). The characterising feature is a mutual duty to respect and integrate the other levels' policies.

The **National Policy of Urban Development**, implemented in 2009, bundles several funding programmes which guarantee public infrastructure in urban areas for the purpose of strengthening urban structures and cities as motors of regional economy. The two main programmes are urban restructuring in the new *Länder* of EUR 2.5 billion from 2002 to 2009, and urban restructuring in the old *Länder* of EUR 40 million annually since 2004. The programmes are co-ordinated by the Federal Ministry of Transport, Building and Urban Affairs and the ministries at the state level in co-operation with the cities. Many small- and medium-sized cities in rural and intermediate regions are beneficiaries of urban development funds. Therefore, the Policy of Urban Development has an important function in regional development.

As for rural policy, the Joint Task for the Improvement of Agricultural Structure and Coastal Protection (*Gemeinschaftsaufgabe 'Verbesserung der Agrarstruktur und des Küstenschuntzes'* – GAK) is the main instrument with which the German government defines its rural policy. A Federal-Regional Planning Committee prepares **the Joint Framework Multi-Annual Four-Year Plan**, which establishes a co-financing rate for measures which are co-decided within the GAK. The National Strategic Plan for Rural Development (2007-13) is a framework plan for EU agricultural aids and an effective tool for vertical co-ordination. In terms of the programming and management of rural development programmes, Germany and Italy are the only countries among the EU 15 with programmes totally devolved to regional competences. The Federal Ministry of Food, Agriculture and Consumer Protection (BMELV) leads rural policy. In addition, since 2008, the GRW focuses more on economic development in rural areas. For example, the subsidy area was enlarged with a special focus on rural regions.

In parallel to the establishment of joint tasks, regional planning has been strongly expanded at the state level where several regional planning measures were introduced by *Länder* ministries. The design of so-called **planning regions** formed a basis for the improvement of regional infrastructure, the development of regional settlement structure and to some extent for the implementation of GRW and GAK measures. Each individual *Land* has its own strategies and schemes for economic development, some of which have a regional dimension. Fiscal constraints at the *Land* level have led to more selectivity in awards and provision of loan-based support in addition to grants in some *Länder* (*e.g.* Thüringen). Specific policies for the new *Länder* are co-ordinated in the context of broader inter-ministerial mechanisms involving federal and *Land* ministries.

Impacts of EU regional policy

For the 2007-13 period, Germany has been allocated a total of EUR 26.4 billion (EUR 16.1 billion under the Convergence Objective and EUR 9.4 billion under the Regional Competitiveness and Employment Objective). Convergence regions have a population of 15.26 million. Germany has made a strong commitment to gear its

Structural Funds investment towards Lisbon-related activities to promote growth and jobs. The main priorities include R&D and innovation (EUR 8 billion), environment (EUR 4.3 billion), SME support (EUR 3.7 billion), and environmentally friendly transport (EUR 3 billion). A further EUR 1 billion is prepared for business start-ups and EUR 1.3 billion is for financial engineering instruments and loan schemes mainly for SMEs. Of note is the relatively large scale of cross-border co-operation programmes with all of its numerous neighbouring countries.

The GRW continues to help co-ordinate interactions between EU and domestic regional policy. The EU Cohesion Policy co-finances the GRW, as well as a range of other instruments at both *Land* and federal levels. In response to the regional aid guidelines, the aid map was redefined with limited changes in area designation and lower aid ceilings applied in most areas. The combined coverage of designated areas has been reduced from 34.9% to 29.6% of the national population, though the new *Länder*, excluding Berlin, remain eligible for support in their entirety. The proportion of the Structural Funds flowing to the new *Länder* has decreased from 68.2% to 59.9%.

Main implementation tools

Under the GRW framework, aid area coverage has grown (to benefit rural areas especially in old *Länder*) and a broader spectrum of activities is eligible for support. The GRW co-finances infrastructure projects, as long as these are clearly oriented towards economic development and business activity. It funds industrial parks; improvements to transport, energy, water, waste water and waste infrastructure; the construction or improvement of education and training institutions; and the running of broadband cables and empty tubes (since 2009). It also makes provisions to support softer forms of intervention. The GRW additionally funds projects which encourage collaboration networks, cluster management and support for business-oriented non-profit research institutions. New pilot support has been introduced for the development of regional strategies in areas below the *Land* level (the so-called "regional budget") and to fund new initiatives not previously assisted under the GRW framework (the so-called "experimental clause" which allows the *Länder* to use up to 10% of their GRW quota [up to EUR 10 million] to fund new initiatives).

A significant development in 2008 was the prolongation of the **Investment Allowance Scheme (*Investitionszulage*)**. This is a major automatic tax concession which supports economic development in the new *Länder* and which was due to run out in 2009. However, aid rates will fall rapidly from 2010 and the scheme will be gradually phased out through the end of 2013. This is a significant development, as Investment Allowance aid for 2010-13 is estimated at some EUR 2.3 billion. This change is related to a wider debate about its deadweight effects due to its automatic nature and resource transfers to the new *Länder* from the old *Länder* in a period of fiscal constraint.

Germany has national-level cluster programmes. With its "**Entrepreneurial Regions**" initiative, which was launched ten years ago, the Federal Ministry of Education and Research (BMBF) pursues a cluster-focused funding strategy for the Eastern German states (new *Länder*). This initiative now includes five different programmes. None of the programmes are focused on specific disciplines or topics and they all follow a bottom-up approach. Great importance is attached to the development of strategies for the establishment of sustainable innovation structures. More than 2 100 projects in more than 330 regional innovation alliances have received funding to date. Small and medium-sized

companies and research and education institutions are involved in these alliances as partners in different forms of co-operation. The annual budget of "Entrepreneurial Regions" amounts to over EUR 90 million.

In addition, the BMBF launched the "**Cutting-Edge Research and Innovation in the New *Länder***" programme in 2008. With a budget of EUR 200 million, the programme aims to support universities and research institutions in their profiling efforts and to promote activities that address the topics of future growth markets. Additional funding has been allocated to the **Central Innovation Programme SME** (ZIM) under the second federal fiscal stimulus package, with EUR 200 million of additional funding (of EUR 900 million) earmarked for the new *Länder* for 2009 and 2010.

Budget structure

The level of domestic funding for regional policy fell for a decade or more but has been more stable in recent years. In 2008, the federal funding allocation to the GRW was EUR 644 million, of which EUR 547 million (around six-sevenths) went to the new *Länder*. Target areas of the GRW are identified on the basis of criteria related to income levels, employment and physical infrastructure. In response to the crisis, besides the normal federal funding allocation, the German Federation provided an extra EUR 200 million in the form of the special financial scheme ("*Sonderprogramm*") for 2009 to 2011 (2009: EUR 100 million, 2010 and 2011: EUR 50 million each). The amount was equally split between new and old *Länder.*

Regional policy funding has declined for two main reasons. First, very high levels of resources were allocated to the new *Länder* in the years immediately following reunification, and it was never intended for these funding levels to continue permanently. Second, all governmental authorities have experienced persistent fiscal constraints in recent years, partly due to increasing demands on public resources in fields such as pensions and health care, but also due to the heavy costs of reunification. Despite the cutbacks, regional policy funding remains relatively robust, with the new *Länder* in particular enjoying significant additional financial allocation from federal and inter-*Land* instruments.

Most funding continues to be targeted at the new *Länder*, which contain under one-fifth of the national population. Six-sevenths of funding under the GRW and 60% from EU Structural Funds is directed at the new *Länder*, while the remaining GRW funding is available in designated, structurally weaker areas in the old *Länder*. Federal policies targeting the new *Länder* focus on structural obstacles to development, notably transport, investment and R&D. New *Länder* received all the resources awarded via the Solidarity Pact, the Investment Allowance scheme, and federal instruments for R&D, innovation, enterprise and marketing. However, these trends will no longer be the case after 2013. The Investment Allowance will be phased out by 2013 and federal funding under the Solidarity Pact will also decline progressively. Basket 1 of the Solidarity Pact (two-thirds of the total) is planned to fall from EUR 10.5 billion in 2005 to EUR 2.1 billion in 2019. There have also been active discussions as to whether specific policy approaches are needed for dynamic metropolitan areas and the extent to which peripheral rural areas require special assistance.

Governance structures

The **GRW** continues to provide a rule-based co-ordination framework for defining eligible areas and agreeing on a joint approach to aid ceilings, thus minimising subsidy competition. It also helps German-EU co-ordination and co-ordination with other policy fields. The GRW has a number of co-ordination mechanisms, including the **GRW Co-ordination Committee**, which is made up of federal and *Land* Economy Ministers. The chair of the committee reports regularly to the *Bundestag* on the implementation of the Co-ordination Framework. Procedural issues are discussed and adopted by the GRW Sub-committee, which is composed of federal and *Land* civil servants from the relevant Ministries of Economies. The GRW sub-committee can also set up working groups to examine specific themes. Similar co-ordination structures are in place for the implementation of EU Structural Funds.

The two federal-level policy units in the field of regional policy, responsible for EU Structural Funds co-ordination and for domestic regional policy are now located in the **Ministry for Economics and Technology**. The federal government mediates with the European Commission on key issues, notably the overall framework for regional aid, as well as Germany-wide issues relating to the Structural Funds. The federal government co-ordinates meetings of representatives from programme managing authorities, which aim to share experiences and develop common views on issues, notably the future direction of EU Cohesion policy.

Local government organisation is the responsibility of individual *Länder* and municipal government systems vary among the *Länder*. Cities with more than 100 000 inhabitants (and smaller towns in some *Länder*) have both district (*Kreise*) and municipal responsibilities. There are currently 111 district-free cities. Competences of district and municipalities may vary from one *Land* to another.

Performance monitoring: Evaluation has long been an integral part of regional policy in Germany. External audit is commissioned by the Ministry of Economy and Technology. Several studies were launched in 2008, including co-ordination mechanisms between policies with a territorial impact, and the development of regions eligible for GRW funding. Accountability is ensured through regular reporting on the GRW to federal and *Land* parliaments. Information on GRW funding recipients is now more widely published in order to improve transparency and to harmonise the GRW approach with the new EU Cohesion Policy approach, where all managing authorities are obliged to publish information on funding recipients. Further evaluation studies on the implementation of EU Structural Funds were commissioned by the Federal Ministry of Economy and Technology in 2008/09.

Note

1. The three joint tasks (regional policy, agriculture and university) were set up in 1969 and 1970 to introduce rule-based co-ordination into a policy field where competition between *Länder* had become an issue. These joint tasks have provided a mechanism for defining cost-sharing, implementing multi-year work plans and resolving problems surrounding policy development and implementation where the national government and the *Länder* share authority.

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Greece

Table 2.11. **Greece**

Country structure	• Unitary , four levels of government (national, 13 regions, 50 prefectures [*nomarchiakes autodiikisis*], 914 municipalities [*dimos*] and 130 communes [*koinotita*])
Problem recognition	• Severe regional disparities at inter-regional and intra-regional levels • Development gap of the entire country with the EU average
Objectives	• Expand country's growth potential • Reduce inter- and intra-regional disparities • Achieve territorial cohesion
Legal/institutional framework[1]	• Development Law (2004, 2006), subject to amendments • Law on Management, Control and Implementation of Development Actions (3614/2007), subject to amendments • Law 3463/2006, Art. 203-207 (yearly operational programmes for municipalities) • General Frameworks for Spatial Planning and Sustainable Development
Spatial orientation	• Special Spatial Plans for Renewable Energy Sources, Industry, Tourism
Urban policy framework	• Regulatory Plans for Urban Agglomerations (only for larger cities)
Rural policy framework[2]	• Rural Development Law (2005)
Major policy tools	• National Reform Programme • Regional innovation poles • National Plan for Transport • National Plan for Social Protection and Social Inclusion • THESEUS Development Programme
Policy co-ordination at central level	• Inter-ministerial Committee of Development Programmes • National Co-ordination Authority • Conference of Presidents of the Managing Authorities
Multi-level governance between national and sub-national levels	• KAPODISTRIAS I Plan • Conference of Presidents of the Managing Authorities
Policy co-ordination at regional level (cross-sectoral)	• Regional councils • Conference of Presidents of the Managing Authorities • Monitoring Committee of ROPs
Policy co-ordination at regional level (geographic)	• Monitoring Committee of ROPs • Local Unions of Municipalities and Communities (TEDK)
Evaluation and monitoring	• National Co-ordination Authority (Ministry of Economy, Competitiveness and Shipping – YPOIAN) • Managing authorities of all OPs
Future directions (currently under discussion)	• KALLIKRATIS Plan (decentralisation reform)

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

Regional disparities measured in GDP per capita, unemployment, and the provisions of basic public services remain severe at both inter-regional and intra-regional levels. The convergence of regions to the EU average in GDP per capita terms is a slow and difficult process due to the diverse problems of different regions (*e.g.* demography, economic structure, and geographical features). Generally, except for the areas around Thessaloniki and Attiki (Athens), the country's regions have neither sufficient critical mass in terms of population nor the necessary production and technological dynamics.

General objectives of regional policy

Policy focus has traditionally been on reducing the development gap of the entire country with the EU in terms of GDP per capita and achieving territorial cohesion. The objectives of regional policy are reflected in the goals of the 2007-13 NSRF. This highlights the fact that Greece lags behind in terms of competitiveness and sets out that:

> […] the overall objective is to expand the country's growth potential, accelerate its economic growth rate and increase productivity at levels higher than the Community average, with the prospect of achieving real convergence and improving the living quality of all citizens, with no exclusions whatsoever.

At the same time, the desire to reduce inter- and intra-regional differences is explicitly acknowledged:

> …the strategy concentrates on the need to implement policies at national and regional level, in such a manner that both regions and cities are attractive places for business, improving at the same time the living standards of its citizens, and reducing inter- and intra-regional disparities.

Regional policy has both competitiveness and equity objectives, but with more emphasis on the former, reflecting the Lisbon agenda and the core focus on broader Cohesion Policy priorities. The Development Law aims to change the country's investment profile and improve its development potential by enhancing its competitiveness and attractiveness. The Development Law also seeks to monitor and encourage balanced growth and regional convergence.

Legal/institutional frameworks of regional policy

Regional policy focuses on infrastructure provision and the Lisbon priorities, with the latter gaining importance for the period 2007-13. As EU Cohesion Policy funding is of major importance in Greece, regional development measures have been strongly aligned with EU Cohesion Policy programmes, combined with regional aid under Development Laws. The administration of regional policy has been largely based on the policy instruments for EU programmes. Five regional and eight sectoral EU operational programmes (with differentiated eligibility and funding criteria) in the 2007-13 programming period, along with one programme for territorial co-operation, lie at the heart of the Greek approach to regional development. The 2007-13 NSRF has increased the regional dimension and categorises the country's regions according to eligibility under the EU objectives: out of the 13 regions, eight fall under Convergence Objective

regions and five are Statistical Convergence regions (two regions are phasing-in and three are phasing-out). Population area coverage has decreased for the period 2007-13 to 36.6% for full Convergence regions, compared to 2000-06 when the entire country qualified for assistance. The Law on Management, Control and Implementation of Development Actions (Law 3614/2007), amended by Law 3840/2010 implements the 2007-13 NSRF.

In addition, **General Frameworks for Spatial Planning and Sustainable Development** were adopted in mid-2008. The frameworks set down longer term strategic directions on which individual development policies can be based. As well as providing a territorial framework for sectoral developments, it argues for a co-ordinated approach to specific spatial challenges (mountainous areas, small islands) and also supports more network-based spatial development. The General Framework is aligned with the NSRF.

On the domestic policy front, the **Development Law**, the framework for subsiding investment in Greece, was revised in 2006 in order to reflect the revised regional aid guidelines. The regional aid map continues to cover the whole country. Although the aid maxima under the guidelines have significantly fallen, the award ceilings of the Development Law will not be affected until the end of 2010.

Impacts of EU regional policy

For 2007-13, Greece has been allocated EUR 20.4 billion in total Cohesion Policy funding (EUR 19.6 billion under the Convergence Objective). Main priorities include transport (EUR 6 billion), environment (EUR 5.5 billion), R&D and innovation (EUR 3.6 billion), and training and education (EUR 2.2 billion).

The management and implementation of Cohesion Policy has led to spill-overs into the national system. The experience gained by delivering the Structural Funds has influenced the practices and procedures used for managing national policies. These spill-overs were mainly contributors to the ongoing public administration reform by strengthening the "managerial approach" within national administrations. The newly established institution to certify the managerial capacity of the final beneficiaries improves the administrative capability of the national authorities and subsequently the management of the actions and projects of the 2007-13 period.

Main implementation tools

The main implementation tools are Law 3614/2007 (amended by Law 3840/2010) that sets out the guidelines for the implementation of the 2007-13 NSRF, the Development Law of 3299/2004 (revised in 2006), the National Strategic Plan for Rural Development 2007-13, and the Stability and Development Pact 2010. Suitable funding instruments (*e.g.* guarantees, venture capital, and micro-finance) have been identified and appropriate structures established like the Guarantee Scheme Fund (TEMPME) and EU JEREMIE support scheme. Considerable emphasis has been put on upgrading transport infrastructure, often co-financed by the Structural Funds, that will give the necessary means to the periphery to boost its development, as well as reducing the isolation not only of the whole country but also of its regions as well.

Regional innovation poles were designated under 2005 legislation (Law 3377/2005) to promote regional competitiveness through the creation of consortia of institutions of technology, research and innovative practice in the regions. By the end of 2010, new

public procurement of a total public expenditure of EUR 17.2 million will be announced in order to select regional innovation poles. The **2005 Rural Development Law** aims to promote entrepreneurship and production in rural areas.

The national regional policy is expressed through the **THESEUS Programme**. This programme aims at the capacity building of the sub-national administrative authorities and pays specific attention to the authorities of the insular and mountainous areas. THESEUS is structured in two action lines: *i*) local development and environmental protection; and *ii*) social and cultural infrastructures and activities. These two action lines are implemented through tangible and intangible measures.

Budget structure

State regional aid data under the 2004 Development Law showed that assistance granted was EUR 3.445 billion in the first 20 months of the amended scheme through July 2007, which is equivalent to an annual expenditure of EUR 2.067 billion.

Governance structures

The tradition of administrative centralisation, with top-down co-ordination, has been strengthened by new arrangements for Cohesion Policy administration for the 2007-13 period. The revised implementation framework for 2007-13 includes an **Inter-ministerial Committee of Development Programmes**. The role of this committee is to monitor and manage the implementation of the NSRF 2007-13. The limited number of committee members encourages flexibility and helps speed up decision making. Instruments to improve efficiency such as target-setting, monitoring, spending and policy reviews and evaluations, are already built in to the delivery of Cohesion Policy in line with regulatory requirements. The Inter-Ministerial Committee is assisted by the **National Co-ordination Authority (NCA)**. The NCA is responsible for preparing the committee's meetings, setting-up the agendas, and providing the relevant data and information.

The administration of the new programmes is set out in the **Law on Management, Control and Implementation of Development Actions**, which was passed in 2007 (Law 3614/2007). The notable changes suggest a more centralised approach in an effort to improve policy effectiveness, though, at the same time, efforts have been made to widen the participation of local authorities in the programmes. The aim was to strengthen the supervision of development planning and implementation, to reduce bureaucracy and managerial costs by cutting back the number of regional operational programmes from 13 during the previous programming period to five large-scale regional programmes, and by transferring managerial responsibilities from 13 regional authorities to one central authority, the **NCA**. The NCA has wide-ranging jurisdiction and authority over almost all phases of the programme either by directly deciding on issues or by advising programming authorities, in order to improve the quality and effectiveness of Structural Funds management. The law also established **Monitoring Committees for the Regional Operational Programmes** and the managing authorities responsible for these programmes' implementation. The **Conference of the Presidents of the Managing Authorities** monitors the implementation level for the target of the Structural Funds. At the central level, the **Ministry of Economy, Competitiveness and Shipping** is in charge of policy co-ordination regarding regional development.

In Greece, there are three levels below the national level: municipalities and communes; prefectures, consisting of 50 self-governing units; and 13 regions which were established and given substantive responsibilities for economic development and planning in 1997 in response to the institutional demands requested by the EU (Kapodistrias Plan). The 13 regions are deconcentrated branches of central government. There is no directly elected body at this level. Regions are run by a Secretary-General, appointed by and responsible to the central government (Minister of the Interior). The Secretary-General is the head of all regional services and the representative of the central government in the region, supervising the local authorities' organisation. He/she presides over a regional council composed of the prefects in the region, a representative of the Local Unions of Municipalities and Communities (TEDK) of the region, and representatives of the regional branches of various organisations. Municipalities are, as a rule, the chief and most important towns in the prefectures while communes are generally remote villages or islands with less than 2 000 inhabitants. There are metropolitan governments for the cities of Greater Athens, Greater Piraeus, and Greater Thessaloniki. Recently, local governance has been reinforced with a strong focus on capacity building within the public administration.

Co-operation amongst local authorities is being promoted to strengthen their role in the generation and implementation of development projects. Municipalities are organised within Local Unions of Municipalities and Communities (TEDK) at the level of the self-governing prefectures. There are 500 such unions in Greece. The process is quite formal as these unions comprise a General Assembly in which all the mayors are represented, an Administrative Council, an elected President and an Executive Committee. Unions draw up a programme of action and establish the corresponding budget.

Recent developments: Recent legislative changes ensure that Structural Funds project applications submitted by consortia of local authorities are prioritised to those submitted by local authorities, as a means of incentivising stronger local governance. The regional structure is currently under discussion with the proposed **Kallikratis Plan** which refers to decentralisation reform, including the election of regional level governors and municipal mergers.

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Hungary

Table 2.12. **Hungary**

Country structure	• Unitary , three levels of government (national, 19 counties [*megyék*], 3 175 municipalities [*települési önkormányzatok*])
Problem recognition	• Regional disparities between east and west • Development gap with the EU average • Urban rural disparities, severe peripheries • Mono-centric town structure
Objectives	• Improvement of territorial competitiveness • Territorial convergence (catching up) • Sustainable territorial development and protection of heritage • Territorial integration into Europe • Decentralisation and regionalism
Legal/institutional framework[1]	• Act on Regional Development and Physical Planning and lower level regulations • National Spatial Development Concept
Spatial orientation	• Underdeveloped regions, special rural areas • Development poles • Budapest metropolitan area
Urban policy framework	• No single urban policy document, though it is partly integrated in the National Spatial Development Policy • Regulations and national guidelines for local level urban planning
Rural policy framework[2]	• New Hungary Rural Development Programme
Major policy tools	• Domestic central and decentralised funds (financial allocations with regional development objectives) mainly in the field of job creation, assistance to local governments for infrastructural developments, and improvement of the business environment (industrial parks, incubator houses) • EU Structural Funds for measures such as the Growth Poles Programme and the Programme for Most Underdeveloped Micro-regions
Policy co-ordination at central level	• Co-ordination of the Ministry for National Development and Economy • National Regional Development Council (inter-ministerial forum)
Multi-level governance between national and sub-national levels	
Policy co-ordination at regional level (cross-sectoral)	• Regional development councils
Policy co-ordination at regional level (geographic)	• Regional (NUTS 2[3]), county (NUTS 3, decreasing role), and micro-region (LAU1[4])
Evaluation and monitoring	• National level: the Annual Report and the four-year Parliamentary Report on Spatial Processes and Implementation of the NSDC • Regional level: evaluations at NUTS 2 regional level solely for EU-related planning
Future directions (currently under discussion)	• Strengthen regional level government

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

3. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

4. To meet the demand for statistics at the local level, Eurostat has set up a system of local administrative units (LAUs) compatible with NUTS. At the local level, two levels of local administrative units (LAU) have been defined: The upper LAU level (LAU level 1, formerly NUTS 4) is defined for most, but not all of the countries. The lower LAU level (LAU level 2, formerly NUTS 5) consists of municipalities or equivalent units in the 27 EU member countries. Since there are frequent changes to the LAUs, Eurostat follows up its development from year to year. The NUTS regulation makes provision for EU member countries to send exhaustive lists of their LAU to Eurostat.

Regional problems

The "traditional" regional (spatial) problem in Hungary are regional disparities, especially between the east and west. Core-periphery and urban-rural dichotomies exist as well. Besides the capital city, which is the most developed part of the country, the northern, western and central parts of Transdanubia can be considered as the most developed territories of Hungary. The most developed micro-regions with the most prosperous indicators (FDI, economic and social data) can be found along the Budapest-Vienna and Budapest-Balaton corridors and in the western border zone. A large proportion of underdeveloped regions in both social and economic terms can be observed east of the River Tisza and in Northern Hungary and southern Transdanubia. These parts of the country can be characterised by special geomorphologic (dominated by hills or mountains) and settlement-network related features (micro- and small villages prevail). These peripheral regions suffer from a lack of adequate infrastructure securing the proper accessibility of public services and both skilled labour force and an adequate number of jobs. The aforementioned disparities can also be detected in the structure of the economy: while the western regions benefit from a high level of FDI, the economies of the eastern region are dominated by agriculture and manufacturing (and also heavy industry in Northern Hungary in the years of socialism). Key challenges are to reduce the development gap of the entire nation with the EU average.

Connected to regional disparities, we can observe a core-periphery pattern, *i.e.* the most developed central part of the country with the capital city on the one side and peripheries on the other side. Periphery can be defined in internal (territories along the internal borders of counties in the Great Plain and in Transdanubia) and external (national borders of Hungary) contexts. In the case of external peripheries, the geographic peripherality meets social/economic peripherality in the north-eastern, eastern and southern borders of the country. This core-periphery pattern is exacerbated by the fact that Budapest has a predominant role in the Hungarian settlement structure and the Hungarian urban hierarchy is incomplete (absence of real regional centrums with 300 000-1 million inhabitants and in some cases the absence of actual urban centres). However, other urban settlements besides Budapest show quite a polycentric pattern within the county.

General objectives of regional policy

The **National Spatial Development Concept (NSDC)** is the basis of the Hungarian regional (spatial) policy and outlines the long-term overall objectives of regional development as well as the medium-term national territorial objectives. The overall objectives are: regional competitiveness, territorial convergence, sustainable territorial development and protection of heritage, spatial integration into Europe, and decentralisation and regionalism. The medium-term territorial objectives consist of: developing a highly competitive Budapest metropolitan area; strengthening development poles to dynamise regions and developing an interconnection system forming a network of towns; levelling up the internal and external peripheries of backward regions; integrating development areas and themes of national significance (long-term competitiveness of the Balaton area, territorial convergence of the Tisza region, sustainable development of the Danube Riverside, the national reserve of thermal water, renewable energy sources); strengthening the development of border regions and

co-operation between cross-border regions; spatially integrated development of rural areas; and spatial priorities for sectoral policies.

Legal/institutional frameworks of regional policy

In Hungary, planning is the basis for financial support. During the last decade, there have been two streams of planning and financing. On the one hand, the national planning system established territorial development concepts and programmes for each statistical region, county and special region (*e.g.* Balaton region, Budapest metropolitan area) as well as for micro-regions. On the other hand, in accordance with the Structural Funds, regional operational programmes must be prepared for each region. The national planning system has a broader legislative background based on several ministerial decrees and the Law on Spatial Planning and Regional Development, while the EU-related planning system assures significantly greater financial resources. The parallelism between these two planning streams causes inefficiency in the operation of planning activities.

The first and main pillar of regional development activities in Hungary – namely those that are based on domestic funds – is the **Act XXI of 1996 on Regional Development and Physical Planning**. The law regulates the framework (main objectives, means, financial resources) and institutional background of spatial/regional planning and settlement development and describes the main task and functions of the territorial levels of the aforementioned planning spheres. After several amendments, the functions of the regional and later the micro-regional levels were extended.

The basic document of spatial planning and regional development is the **National Spatial Development Concept (NSDC)**, which can be assessed as collection of territorial perspectives of the National Development Concept (NDC). The NDC is a sectoral document which contains the overall strategic objectives. It comprises "8+1" overall objectives; the "+1" is "balanced spatial development", which is based on the national regional objectives of the NSDC.

The NSDC was the first legitimate development policy document in the country that defined long-term overall spatial development objectives and provided spatial guidelines for the elaboration of spatial/regional programmes. According to the aforementioned Law on Regional Development and Physical Planning, the first NSDC was designed and adopted by parliamentary decree in 1998. The law and the Parliamentary Decree No. 35/1998 require the NSDC to be reassessed every six years. The new NSDC was designed and adopted by Parliament decree in 2005 (97/2005(XII.25.)). The Parliamentary Progress Report on the Spatial Process and Implementation of the Spatial Development Policy has to be drafted every four years (previously every two years). The reassessment of the second concept will begin soon.

There is no single urban policy document; however, it is partly integrated in the national spatial development policy and its integration is expected to be further strengthened in the future. There are also regulations and national guidelines for local-level urban planning.

Main implementation tools

National regional aid can take the form of repayable and non-refundable assistance or interest-free loans. There are two categories of funding: funds targeting the development of the local economy (*e.g.* employment, international co-operation) and assistance to local governments for infrastructure development. Some of these allocations are given regardless of the territory while others are distributed only to beneficiary micro-regions/settlements.

The **Territorial and Regional Development Allocation** (TRFC, Regional Development Allocation until 2003) is divided into a centralised part which can be used for larger, special investments generating employment and the decentralised part which can be spent for job creation, infrastructure development and enterprise support. Since 2008, the type of project supported has been modified. To avoid cross-financing with EU sources, activities such as community development initiatives, development of regional/local economies and awareness raising are now supported.

The **Development Assistance for Territorial Balancing (TEKI)** focused on infrastructure development. To avoid duplication with EU financing, since 2008, it mainly covers fields that are not supported by EU funds.

The **Support for Most Underdeveloped Micro Regions (LEKI)** was established in 2006. This is a good example of decentralised funds whose decision making was transferred from the county to the regional level. Its main objectives are improving the living environment, the diversification of local economy and improved social inclusion.

Targeted Decentralised Assistance (CÉDE) has existed since 1998. Up until EU accession, it mainly supported the development of municipal properties. Since 2008, its profile has been modified in order to avoid cross-financing.

To assist innovation and competitiveness, the **Growth Pole Programme** (EUR 1.7 billion for 2007-13) was created, with Budapest as the centre and seven other large towns. The Hungarian government underlined the importance of spatial co-operation between bigger towns. The programme for growth poles has two pillars: development of SMEs and horizontal economic development. The first pillar supports enterprises (clusters) that will be able to produce high value-added export goods and high-level services. The programme contributes to the acquisition of tangible assets, human resources, business services and repayable sources. The second pillar aims to advance the overall business environment through physical and soft infrastructural development. Beneficiaries can be institutions in education, research or health or local governments.

Impacts of EU regional policy

Hungary joined the EU in mid-2004. It has been allocated EUR 25.3 billion in the 2007-13 programming period. Cohesion Policy investment focuses on transport (EUR 7.2 billion), education and training (EUR 2.98 billion) and R&D and innovation (EUR 2.16 billion), particularly in regional growth poles. Aid levels have decreased in various regions. The Second National Development Plan (NDP) called the **New Hungary Development Plan (NHDP)** came into effect in 2007 and introduced eight sectoral and seven regional operational programmes (ROPs) for each NUTS 2 planning region rather

than just one ROP for all seven regions, as in the 2004-06 period. This change increased the share of funding spent on ROPs from 16% to 25%, and multi-region OPs have also been developed. The New Hungary Development Plan defined six special fields of action to increase employment and long-term growth: economic development, transport, social renewal and infrastructure, environment and energy, regional development and reform of the state administration. These objectives are manifested in the structure and resource allocation of the operational programmes.

Certainly, these supports are expected to have a major positive impact on the development of infrastructure, accessibility, tourism and urban issues, all of which will improve over the medium and long term. Whether competitiveness, employment and growth will improve as well cannot be answered as they are also influenced by other worldwide variables such as economy, finance, climate, etc. These can all be traced and evaluated due to appropriate monitoring and impact evaluation activities.

In terms of rural development, the New Hungary Rural Development Programme plays the role of the National Rural Development Programme in Hungary for the period of 2007-13, pursuant to Article 15(1) of Council Regulation (EC) 1698/2005 on support for rural development by the European Agricultural Fund. This programme summarises the objectives and priorities that should be implemented based on the European Agricultural Fund.

Budget structure

The budget structure consists of two main sources: domestic financial resources, mainly financial allocations from the central administration or decentralised ones, and EU-related funds based on the New Hungary Development Plan. There have been significant changes in the proportion of these two streams in recent years. Since EU accession, the amount of EU-related support has significantly increased while domestic support has decreased and its fields of development have been narrowed.

The amount of EU-related support is much greater than domestic resources. Hungary will receive EUR 22.4 billion (2004 prices) for the programming period of 2007-13, according to the New Hungary Development Plan. Fifteen per cent of total available funding must come from a national contribution, thus a total of EUR 26.3 billion may be used for regional development. In addition to Cohesion Policy, the European Agricultural Fund for Rural Development (EAFRD) and the European Fisheries Fund (EFF) provide Hungary with EUR 3.8 billion and EUR 34.3 million respectively (at current prices).

The total amount awarded to applicants, both for EU-related support and domestic funds between 2003 and 2008, was HUF 4 243.8 billion. The annual average is HUF 707 billion, which was equal to 2.8% of GDP and 24.4% of all investments in 2007. The amount of support from the national budget was HUF 2 253.2 billion. During this period, 161.8 projects were implemented and more than two-thirds of them were supported by domestic funds. However, the proportion of domestic support in financial terms is only 55%.

Domestic financial support has notably decreased in terms of scale and proportion compared with EU resources. The main types of domestic financial allocations directly serving regional development goals are the Territorial and Regional Development Allocation (TRFC), Support for Most Underdeveloped Micro-regions (LEKI), Development Assistance for Territorial Balancing (TEKI) and Targeted Decentralised

Assistance (CÉDE). In 2008 they totalled HUF 2.6 million for TRFC, HUF 5.9 million for LEKI, HUF 3.8 million for TEKI and HUF 4.2 million for CÉDE. Except for the CÉDE, these amounts decreased between 2005 and 2008. The reduction of the TRFC is especially outstanding as the amount in 2008 was one-tenth of its value in 2005. These tendencies are expected to continue in the immediate future.

Regarding the territorial aspect of financial support, there is a statement that EU-related sources have been concentrated mainly in bigger centres (cities) while domestic sources have been distributed in the most underdeveloped areas such as peripheral regions or micro-regions lagging behind in social/economic terms.

Because several financial allocations only continued one or two years, development policy was unpredictable, which facilitated the decentralisation of resources from the county to the regional level. The counties have reduced decision-making power. The most underdeveloped micro-regions can generate their own resources. The unique and integrated profiles of financial supports have not fully evolved and there is still some overlap between different objectives. After the crisis, Hungary received IMF loans and implemented austerity programmes in 2008-09.

Governance structures

The administration of domestic and EU regional policy is separate. The 2007-13 New Hungary Development Plan is delivered through a central system.

The **Ministry for National Development and Economy** has the role of co-ordinating domestic regional policy. Vertical co-ordination exists between the central government and regional development councils. The ministry also elaborates the National Spatial Development Concept. The **National Development Agency** (previously the National Development Office) is responsible for the establishment of the National Development Concept, the National Development Plan, and co-ordination of EU-related support. Due to the highly centralised nature of the public administration, partnership has been challenging. Problems include a lack of co-ordination, the changing division of labour between ministries, and fragmented and weak systems for sub-national representation. A parliamentary decision determines the principles for allocating regional policy funds, which offer support for local economic development, local infrastructure measures and support for less developed micro-regions.

After Parliament adopted the Act on Regional Development and Physical Planning in 1996, seven statistical-planning regions were delimited at NUTS 2 level. These regions follow the borders of the counties and all of them consist of three counties, except for the Central Hungary Region that comprises only Pest county and the capital inside the county. **Regional development councils** and **regional development agencies** as the supporting institutions of the councils have been established in all regions. The Regional Development Council acts as a high-level forum for co-ordination and is responsible for regional development programmes and the distribution of related financial resources. All in all, it is an inter-ministerial organisation with quite an important role that might have impacts on national and regional policy processes and harmonise different political and professional arguments. Among the tasks of the councils and agencies, preparing and implementing operational programmes and regional strategies is very important. In contrast with counties which have a wide range of administrative tasks, the regions have a planning role. Due to the fact that regions are artificial statistical-planning territories, Hungarian NUTS 2 regions only have limited decision-making functions, mainly in

connection with the distribution of subsidies and the management of regional development funds. The role of the regions as well as their regional councils might be enhanced in the future as an integrated part of the forthcoming administrative reform.

Councils are decentralised institutions that are independent from the government. However, central actors remain critical in the councils. The councils consist of delegated (not elected) members, so political legitimacy is quite weak. Members of the councils at regional and county levels are assigned by taking into consideration all social and economic stakeholders of the given territory. The Ministry of Interior appoints, directs and supervises the 30 public administration offices, a deconcentrated branch of central government, to supervise local authorities.

According to the Act on Local Government of 1990, all settlements (even the smallest micro-villages) have their own municipality. These local governments are elected bodies responsible for local decision making. Local governments are free to perform any activities which are not reserved to the national level, while their main tasks are basic service provision (which is regulated by national laws). They are also responsible for the creation of settlement development concepts and physical plans. The act defines almost the same obligatory tasks for smaller settlements as for the metropolis. Towns with populations of more than 50 000 may be granted county status. There are 23 of these urban counties, which have the combined responsibilities of a municipality and a county and may create districts.

Between the local and regional levels, there are two additional levels that play an important role in spatial planning and programming. Hungary has 174 micro-regions that are delimited by the Central Bureau of Statistics. The delimitation is based on an indicator system (which has nine variables from fields such as demography, economy and infrastructural background). Micro-regions must also be delimited along county borders, which leads to inconsistency with actual functional linkages. According to the amendment of the Regional Development and Physical Planning Act, all micro-regions had to establish their own **micro-regional councils** in 2004. The councils are responsible for preparing and implementing micro-regional strategies for regional development and supporting development activities of the local level. The councils are also the legal/institutional framework of micro-regional co-operation among municipalities. In the future, parallel with the enhancement of the regions' role, the role of micro-regions might be expected to increase, mainly in the field of co-ordination.

The other important level is the county. Counties have been historically and traditionally responsible for territorial administration. Their roles root back to the 11th century. Local county governments have a secondary role in regional policy. Members of these governments are elected by the citizens of the counties. The main tasks of the county government are the provision of services which are not provided by municipalities. The government also has limited decision-making functions related to the distribution of decentralised state aid. Additionally, the local county government is responsible for preparing the county's physical plans. County governments are engaged with measures such as co-ordinating the development activities of communities and creating databases. Similar to the regional level, the **county development councils** and the **county development agencies** were established following the adoption of the Law on Regional Development and Physical Planning in 1996. One of their main tasks is the preparation of Regional Development Concept and programme of the county.

Recent developments: Some implementation responsibilities have moved from the central to the regional level. Sub-national input into the implementation process is being strengthened, potentially involving a stronger role in resource allocation, project generation and selection.

Performance monitoring: At the national level, fulfilment of regional policy objectives is monitored and assessed by the Annual Report and the four-year Parliamentary Report on Spatial Process and Implementation of the NSDC. Currently, evaluations at the NUTS 2 regional level in Hungary are solely linked to EU-related planning. At the micro-regional level, there are no legal evaluation frameworks.

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Iceland

Table 2.13. **Iceland**

Country structure	•	Unitary , two levels of government (national, municipalities)
Problem recognition	•	Depopulation of areas outside of the Capital Region
Objectives	•	Avoid regional depopulation
	•	Minimise regional disparities
	•	Create optimum community conditions for rural areas and ensure the quality of public services in sparsely populated areas
Legal/institutional framework	•	Regional Plan
Spatial orientation	•	Territory outside of the Capital Region (mainly rural)
Urban policy framework		
Rural policy framework	•	Four-year Development Plans with Growth Agreements and Cultural Agreements
Major policy tools	•	Institute of Regional Development: credit and financial support for projects in the regions and the operation of eight independent regional development agencies
	•	IMPRA – Innovation Centre: soft support for economic activity in the regions and financial support
	•	Regional growth agreements
	•	Equalisation Fund
Policy co-ordination at central level	•	Co-ordination of the Ministry of Industry, Energy and Tourism and the Institute of Regional Development
Multi-level governance between national and sub-national levels	•	Regional growth agreements
Policy co-ordination at regional level (cross-sectoral)	•	IMPRA facilitates the creation of regional knowledge clusters, gathering several national agencies antennas
Policy co-ordination at regional level (geographic)	•	Municipal mergers
Evaluation and monitoring	•	Institute of Regional Development
Future directions (currently under discussion)	•	Further streamlining the rather fragmented support system by merging similar services

Regional problems

More than half of the Icelandic population (320 000 inhabitants) live in the Capital Region, and depopulation of the rural areas is persistent. This imbalance has received regular policy attention from successive Icelandic governments. With the growth of other industries and services, the importance of fishing and agricultural activities has diminished. The changes in the economic conditions for these activities (larger fishing vessels, general technological developments and automatisation, trading of quotas) mean that new employment opportunities need to be developed that are suitable for the younger well-educated generations in rural areas. A key challenge is delivering well-paying jobs and in some cases public services as well to the remote rural communities, dispersed over a large territory with difficult climatic conditions.

General objectives of regional policy

The goal of Icelandic regional policy is to minimise disparities in the standard of living and income opportunities across the different regions of Iceland, and to create optimum community conditions for rural areas. The policy places a great emphasis on supporting municipalities and ensuring systematic support to industrial development, education, cultural activities and reliable social services. The intention is to strengthen communities that are the most populous, attracting the greatest number of people and the best chances of increased economic development, schooling, culture and public services. A key theme under the current **Regional Plan** (2010-13) is the development of industries and companies, with a particular emphasis on SMEs in the regions. The policy also places a great emphasis on telecommunications, with the goal of all users paying the same price for data transport, regardless of location.

Legal/institutional frameworks of regional policy

The **Regional Plan** is the key policy document that primarily emphasises the development and growth of SMEs (small and medium-sized enterprises). It is therefore more an SME policy than a regional plan in the conventional sense. It describes the goals and policies of the government in regional issues, the implementation plans, and the relationship of regional policy to national policy. The plan is approved by the Parliament for a period of four years. Presently, a new policy structure is being developed that will lead to a more comprehensive Regional Development Plan.

The Institute of Regional Development collects data and perspectives for regional development, and publishes a variety of reports related to regional development issues. A comprehensive survey is carried out on differences in the living conditions in various communities and the working conditions in various industries, in addition to an assessment of the impact of government measures to mitigate these differences. Proposals for the Regional Plan are made on the basis of this research.

Main implementation tools

The Ministry of Industry, Energy and Tourism operates a programme of **regional growth agreements**, which have been made with all seven regional districts outside the Capital Region. The main purpose of the growth agreements is to organise regional co-operation in clusters between companies, research and training institutions in certain sectoral areas (such as tourism, fisheries, food, education and research). These agreements often include the establishment of **knowledge hubs**, gathering antennas of the main knowledge and training institutions from the capital area, business support services, and distance training facilities.

The **Institute of Regional Development** offers financial support for the development of economic projects in the regions and manages a loan scheme for companies' investments outside the capital area. It is possible to use equity, but this form of support is currently not used. A specific support scheme exists for female entrepreneurs.

The Icelandic government develops policies with the aim of attracting or retaining population outside of the capital city. One controversial policy line is the establishment of power-intensive industries in the countryside: utilising the abundant electricity sources (hydropower and geothermal energy) and offering important and permanent employment opportunities for inhabitants.

Budget structure

The Ministry of Industry, Energy and Tourism funds the Regional Development Institute. The annual state contribution to this institute amounts to ISK 365 million in 2010, ISK 318 million to the Development Plan plus project funding that were allocated through other budget lines.

The Local Authorities' **Equalisation Fund** assists the economically weakest municipalities to fulfil their service obligations.

Governance structures

The **Ministry of Industry, Energy and Tourism** has the responsibility for regional policy in Iceland and for the implementation of regional plans. The **Institute of Regional Development**, which is responsible to the ministry, promotes regional development and economic growth. The institute supports eight **industrial regional development agencies** in Iceland. The agencies co-ordinate municipalities, federations of municipalities, trade unions, business concerns, and various other projects.

IMPRA, an autonomous department of the Icelandic Innovation Centre, contributes to policy implementation through its centres established in the regions. These centres offer advisory services and training to new and existing entrepreneurs in the regions. IMPRA staff members sit on the Boards of Directors involved in most of the growth agreements and elaborate agreements. In addition, IMPRA runs several financial supporting schemes directed to industry in the regions outside of the capital area.

Many municipalities are small in terms of population, with a very limited number of relatively large municipalities and a large number of extremely small ones which are often located far from other settlements. A more robust structure of local government is

seen as a precondition for public service delivery and economic development. The central government has therefore repeatedly encouraged municipal mergers. The number of municipalities decreased from 204 in 1990 to 79 in 2006. It is also expected to streamline the rather fragmented support system by merging similar services.

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Ireland

Table 2.14. **Ireland**

Country structure	• Unitary, four levels of government (national, eight regions, 29 county councils and five city councils, 75 town councils and five borough councils)
Problem recognition	• Persisting regional disparities and urban-rural disparities
Objectives	• Ensure that designated gateway regions maximise their potential for socio-economic development • Achieve a better balance between regions • Foster enhanced co-ordination in the development of gateways and their regions (in terms of poly-centric territorial structure)
Legal/institutional framework[1]	• National Development Plan (NDP) • National Spatial Strategy (NSS)
Spatial orientation	
Urban policy framework	
Rural policy framework[2]	
Major policy tools	• Gateway Innovation Fund (currently suspended)
Policy co-ordination at central level	• Inter-departmental committee regarding NSS • NDP by the Department of Finance • NSS by the Department for Environment, Heritage and Local Government
Multi-level governance between national and sub-national levels	
Policy co-ordination at regional level (cross-sectoral)	
Policy co-ordination at regional level (geographic)	
Evaluation and monitoring	• Annual reporting on NDP to Parliament
Future directions (currently under discussion)	• Merger of regional agencies, reduction of local authorities

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

Convergence between the regions has taken place, but development disparities continue to persist, particularly between the more prosperous eastern and southern parts of the country, especially Dublin and the more peripheral regions (Border, Midlands and West: BMW Region). Rural-urban disparities are an ongoing concern, while employment and population growth have become more widely distributed. In the Greater Dublin Region, the main concerns include competition for high value-added investment, the development of innovation and R&D activities, labour shortages, congestion, and urban sprawl. In contrast, BMW regions continue to show economic weakness as reflected in a limited industrial base, an economy with a number of vulnerable sectors, a weak urban structure and deficiencies in infrastructure, poor graduate retention and a consequent brain drain, and low levels of economic activity clustering. In sum, they are perceived to be lacking the critical mass to effectively drive development and address economic weakness.

General objectives of regional policy

The regional development objectives of the **National Development Plan** are to: ensure that designated gateway regions maximise their potential for economic and social development; achieve a better balance between the regions in economic and social development; and foster enhanced co-ordination in the development of gateways and their regions (in terms of territorial structure). Achieving territorial balance in regional development is an issue given congestion and related problems in the Dublin area. There is a desire to promote gateways and hubs across the country.

The economic crisis has had a major impact on economic development and crucially diminished government funding for regional policy. Re-establishing national growth is the current priority, reflected in a new policy framework document, "**Building Ireland's Smart Economy**".

Legal/institutional frameworks of regional policy

Regional policy was traditionally embedded in EU Cohesion Policy due to the large scale of the funding. However, the major decline in EU support for 2007-13, reflecting the strong economic growth in recent years, brought about change in policy trends. Regional development is centred on the implementation of the National Development Plan, the strategic use of Cohesion Policy funding, the mobilisation of the National Spatial Strategy (with its particular focus on nine designated gateways and hubs) and the continuing promotion of a regional focus in economic development institutions and strategies.

The **National Development Plan (NDP)** is a high-level strategic policy framework, which lays down the integrated programming approach for economic and social development during the period 2007-13, with wholly domestic funding (EUR 184 billion). Under the NDP, balanced regional development is a horizontal theme which stresses the need to build on existing strengths in all regions and addresses particular infrastructure deficits, rural economy, enterprise development, innovation, and training provision. Infrastructure investment continues to be the pillar of the NDP,

focusing on critical infrastructure to promote self-sustaining growth and balanced development. The 2007-13 NDP emphasises key business infrastructures in gateways (*e.g.* flagship parks), while NDP social infrastructure and social inclusion policies target disadvantaged urban, rural, *Gaeltacht* and island communities.

The **National Spatial Strategy (NSS)** has provided a framework for a more co-ordinated approach to spatial planning since 2002. It heads a hierarchy of spatial plans at national, regional and local levels. At the national level, departments and their agencies are embedding the policies contained in the NSS in their programmes and investment activities and an inter-departmental committee has been established to oversee and co-ordinate this process. The NSS links to the 2007-13 NSRF and accompanying operational programmes. However, their lower funding means that they now focus on a limited range of interventions to rationalise the administrative burden of working with the Cohesion Policy. Regional development within the NSS framework focuses on gateways and hubs, spatial policy for rural areas, environmental sustainability, all-island collaboration, social inclusion, and value-for-money. The **Gateway** concept aims to harness the development potential of nine designated gateways and related hubs to generate critical mass within regional economies. Especially, it recognises the significance of Dublin's international gateway status. The key development agencies are expected to link the new state aid regime to this gateway strategy. The **Gateway Innovation Fund** was launched to provide support in respect of the particular (often co-ordination-related) challenges facing developing gateways (*e.g.* support for co-operation across administrative borders, stronger private sector participation, university-industry links, and the implementation of planning and sustainable development strategies).

Impacts of EU regional policy

Massive decline of Cohesion Policy funding (from EUR 3.8 billion for 2000-06 to EUR 740 million for 2007-13) has caused EU support to be excluded from the NDP, though a number of objectives are similar in terms of the stress on the Lisbon Agenda (EUR 212 million for education and training, EUR 160 million for R&D and innovation and EUR 153 million for environment). Awards and availability of particular forms of support are determined through negotiation and mainly depend on the quality of employment and location. Awards can take the form of capital grants, R&D grants, employment grants and training grants. Aid regime was revised and simplified in line with new regional aid guidelines. Major reductions in designated aid area coverage of the regional aid map (halved from 100% to 50% of the national population) and in aid ceilings have seen regional aid concentrated in the BMW Region as well as in the south-east and some small islands in the south-west. Both the Dublin Region and the mid-east lost their eligibility to award regional aid.

Main implementation tools

Hard infrastructure still forms an important element of support for the business environment. The 2007-13 NDP sets out ambitious plans in the field of infrastructure investment. In addition, business and technology parks and incubator units continue to be important elements of policy, with IDA-Ireland developing flagship parks in gateway locations and world-leading clusters of knowledge-based activities. Infrastructure-rich sites for utility-intensive industries are also being developed in a range of centres.

IDA-Ireland and Enterprise Ireland support capacity building in R&D and innovation. Part of this work has involved collaborating with universities and research institutes to build their links with industry, to develop new business or to encourage existing enterprises to pursue higher value activities. The broader support activities are also vital, with a new **Enterprise Ireland Strategy** to drive enterprise growth and accelerate the development of world-class Irish companies. Other than these initiatives, organisations such as Faite Ireland (tourism), the Irish Sea Fisheries Board (fishing and aquaculture), the Irish Leader Network (rural enterprise) and the Irish National Training and Employment Authority also play a key role in enterprise development.

Budget structure

There is no regionally allocated budget information for individual policies. The Operational Programme for the BMW Region was allocated EUR 2 646.1 million in public (domestic and EU) resources for 2000-06, compared to just EUR 572 million for 2007-13. The equivalent figures for the Southern and Eastern Region were EUR 3 791.4 million (2000-06) and EUR 367 million (2007-13). These declines, almost four-fifths in the BMW Region and more than 90% in the Southern and Eastern Region, are particularly noteworthy as they significantly reduce regionally managed resources. The new, domestically funded NDP does not include a regional breakdown of investments. However, the NDP annual reports include regional indicators and the ongoing allocation of central government resources at project level.

The economic crisis has had a major impact on economic development and crucially diminished government funding for regional policy. NDP capital expenditure was expected to decrease by almost 20% in 2009 and there have been major public expenditure cutbacks, including the suspension of the Gateway Innovation Fund, with an initial budget of EUR 300 million over 2008-10.

Governance structures

Ireland has a weak tradition of regional policy and regional governance, due to its long-standing policy focus on national growth, and the strengths of national and local levels. There has also been a highly centralised approach to the Structural Funds (and regional policy), in part because the whole country was designated as a NUTS 2[1] region up until 1999. However, levels of decentralisation and regional participation in policy development have slowly begun to grow, in particular following the division of the country into two NUTS 2 regions and the establishment of a regional assembly in each NUTS 2 region in 1999. BMW and Southern and Eastern regional authorities have increased administrative functions as managing authorities for 2007-13 regional operational programmes, while the NUTS 3 regional authorities, introduced in the 1990s, are gradually establishing themselves as actors in policy process.

Two regional assemblies mainly implement and monitor EU-funded programmes, composed of nominated members from the county and city councils. Eight regional authorities are responsible for regional planning guidelines and regional economic and social strategies, and are composed of nominated members from the county and city councils. Funding for regional authorities comes entirely from constituent local government and regions have no taxation powers.

County councils and city councils are the primary units of local government in Ireland. The manager is nevertheless a public servant appointed by the Public Appointments Service and is accountable to the national government as well as to the local council. The county development boards, set up in 2001 and composed of local representatives and various local public bodies, develop a social and economic strategy for their area. Town councils and borough councils do not cover all national areas. Irish local governments have very limited administrative competencies.

Influenced by Cohesion Policy, a multi-annual and multi-sectoral programming and partnership model lie at the heart of policy making. This demands a co-ordinated policy approach across government departments, levels of government and partner organisations. Regional policy responsibilities are shared across several, national-level government departments: the Department of Finance has responsibility for the co-ordination and implementation of the NDP and EU Cohesion Funds; and the Department for the Environment, Heritage and Local Government is responsible for the NSS, which has become an increasingly influential document; the Department for Enterprise, Trade and Employment deals with enterprise policy. All other departments have policy functions under their respective remits, some with a more regional focus than others.

Recent developments: The changed economic conditions may also have an affect on the structure and a remit of government departments and agencies. A July 2009 report of an advisory group on public spending (*An Bord Snip*) suggested the merger of regional offices across agencies, the streamlining of agency functions, a reduction in the number of local authorities and the closure of the Department of Community, Rural and *Gaeltacht* Affairs. Although a multi-agency taskforce has been established for Limerick and the Mid-West Region in response to the crisis, no additional resources have yet been allocated to it.

Performance monitoring: Reinforcing value for money through monitoring and evaluation is recognised as an important benefit of working with EU Cohesion Policy Funds. In the fields of monitoring, financial control and evaluation, national expertise has been built up such that it is now applied in non-EU-supported areas. For instance, annual reporting requirements on the NDP to Parliament for debate are now embedded. Cost-benefit and capital appraisal techniques are more widely applied to capital programmes.

Note

1. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

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Italy

Table 2.15. **Italy**

Country structure	• Unitary (highly decentralised), four levels of government (national, 19 regions and two autonomous provinces [*regioni e province autonome*], 110 provinces [*province*], 8 100 municipalities [*comuni*])
Problem recognition	• Regional disparities between the north and south (*Mezzogiorno*)
Objectives	• Achieve socio-economic rebalancing (Constitution) • Promote key factors of growth in all regions
Legal/institutional framework[1]	• National Strategic Framework (NSF) • Regional and National Single Programming Documents (POR, PON, POIN, PAR and PAN)
Spatial orientation	• Lagging southern regions
Urban policy framework	• Within NSF
Rural policy framework[2]	• National Strategic Plan for Rural Development (Ministry of Agriculture) and NSF (Ministry of Economic Development)
Major policy tools	• European Structural Funds and national co-funding • Fund for Underutilised Areas (FAS) • Institutional Agreements and Framework Programme Agreements • Measurable objectives and targets for essential services, performance reserve system
Policy co-ordination at central level	• Co-ordination of the Department for Development and Economic Cohesion (DPS) of the Ministry for Economic Development • National Committee for the Co-ordination and Monitoring of the Regional Policy
Multi-level governance between national and sub-national levels	• Institutional Agreements and Framework Programme Agreements • National Committee for the Co-ordination and Monitoring of the Regional Policy • Performance Reserve System
Policy co-ordination at regional level (cross-sectoral)	• Integrated regional strategies and programmes
Policy co-ordination at regional level (geographic)	• Inter-regional operational programmes
Evaluation and monitoring	• Public Investment Evaluation Unit (within the DPS, Ministry of Economic Development) and the National Evaluation System • Regional systems of evaluation and monitoring • System of territorial indicators and targets linked to the NSF
Future directions (currently under discussion)	• Fiscal federalism reform

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The focus of regional problems remains on the socio-economic disparities between a wealthy and developed centre-north and the lagging *Mezzogiorno* in the south. This entails a complex policy response to internal disparities and the overall stagnation of growth rates at the national level.

General objectives of regional policy

The long-standing under-development of the south (*Mezzogiorno*) has seen a variety of regional policy approaches over the years and has made the achievement of socio-economic "re-balancing" (*riequilibrio*) an explicit objective of the Italian Constitution since 1947. From the post-war period up until the early 1990s special intervention was provided for the south mainly in the form of infrastructure support and state aid. Since 1998, Italian regional policy has been mainly guided by EU Cohesion Policy, which triggered the adoption of EU programming tools and governance methods. Over the period 2000-06, domestic regional policy was very closely linked to the Structural Funds, was increasingly consensus-based, competitiveness-oriented and directed towards the release of under-utilised regional potential. The main objective of Italian regional policy is to reduce existing disparities between and within regions, and to improve the country's competitiveness and growth.

Legal/institutional frameworks of regional policy

The **National Strategic Framework (NSF)** for the period 2007-13 develops a country-wide programme-based approach, combines EU and domestic regional policy budgets, and adopts the EU's seven-year financial planning framework and monitoring and evaluation procedures. The new approach can be viewed as the rebirth of a distinct domestic regional policy. The NSF has a wider geographical focus than EU Cohesion Policy (the main target is the *Mezzogiorno*, not just the Convergence regions) and broader thematic coverage (complementing Cohesion Policy). It is characterised by a distinctive territorial approach, which promotes under-utilised potential in all regions for enhancing territorial competitiveness, in the framework of tailored regional strategies implemented with an integrated approach and a multi-level governance model, but focuses on main thematic priorities of national and EU interests (linked to the Lisbon agenda). Domestic regional policy funding (*e.g.* the Fund for Underutilised Areas) accounts for just over half of the combined budget. The NSF acknowledged that the persistence of territorial disparities and the relative stagnation of the national economy required more targeted policies, addressing factors that impact negatively on national competitiveness: the failure of the state to supply efficient collective services and guarantee competitive conditions; the inadequate level of competencies among both adults and youth; the low level of industrial innovation; and inefficient capital markets, incapable of supporting entrepreneurship. Resources are concentrated on the *Mezzogiorno*, which has one-third of the national population. The series of measures allow national competitiveness goals to be combined with territorial cohesion.

Two main documents guide rural development policy in the country: the **National Strategic Plan for Rural Development (NSP)** produced by the Ministry of Agriculture and the **National Strategic Framework (NSF)** produced by the Ministry of Economic

Development. The NSP and the NSF are mutually informed (yet institutionally separate) and co-ordinate and guide rural development programmes and operational programmes at regional level. The **National Rural Network (NRN)** was recently created to improve rural governance, operation and planning and to facilitate co-ordination between different stakeholders.

Impacts of EU regional policy

Italy is the third largest beneficiary of the European Union's Cohesion Policy after Poland and Spain. Traditionally, EU support has been at the heart of domestic regional development policy. However, for 2007-13, overall population coverage under the regional aid map has been reduced from 43.6% to 34.1%. For the first time, the 2007-13 Cohesion Policy has also removed one region, Sardinia, from the Convergence objective. The need to enhance the impact of EU support, maximising potential synergies with national policies, produced a new unitary regional policy via the National Strategic Framework (NSF), linking EU policy and domestic policy. During the 2007-13 programming period, Italy will receive a total of almost EUR 29 billion in European funds. The Convergence regions (Campania, Puglia, Calabria, Sicily and Basilicata) are the main beneficiaries of the funds.

Main implementation tools

The effectiveness of regional policy is assured in the *Mezzogiorno* through a newly created **performance reserve system.**[1] The achievement of adequate standards in areas such as the quality of education, child and elderly care, urban waste management and water service is the parameter used to judge the effectiveness of public spending. For the period 2007-13, Italian regional policy englobes explicit targets on the provision and quality of essential services (measured through 11 indicators) to be met by 2013 by the southern regions. Around EUR 3 billion are conditioned to the attainment of these targets. The performance-based mechanism also rewards local excellence. Part of the incentives will be, in fact, assigned to local governments in charge of delivering or managing services that have improved their performance levels with respect to the indicators, within the framework of a formal incentive mechanism established by the region. The new scheme confirms the general approach of introducing competitive elements (monetary premiums and reputational benchmarking) among the regions, while collectively and consensually deciding on the priority areas, targets, indicators and procedures. It involves a strong emphasis on results that closely affect public service provision and essential conditions for development.

The formation of a new (Centre-Right) government following the 2008 elections has seen a major economic package introduced to promote financial discipline and growth. The **2009-13 Economic and Financial Programming Document (EFPD**) of the new government concentrates the **Fund for Underutilised Areas (the FAS)** on strategic infrastructure, promotes industrial districts and increases the intervention areas of industrial innovation projects (*Progetti di Innovazione Industriale*, PII) and though the EFPD, for the first time, did not include a section on the *Mezzogiorno*, established a new Bank for the *Mezzogiorno.* A new **Law on Fiscal Federalism** was approved by Parliament in May 2009 (Law 42/2009). Though it will require implementation legislation to take effect, it potentially has major implications for the future and nature of regional policy.

Industrial innovation projects (*Progetti di Innovazione Industriale* – PII) are a part of industrial policy, but have significant regional impacts. They aim to re-launch and upgrade the competitiveness of the Italian productive system by taking a more selective approach to public support for industrial investment. The 2007 Finance Law actualised the implementation of five PIIs in strategic sectors (energy efficiency, sustainable mobility, new technologies for the Made in Italy programme, new bio-technologies, and innovative technologies for cultural resources and activities). The selected projects are long term, involve substantial resources, have national relevance, are targeted at the achievement of specific technological goals, and focus on complex activities, producing innovative and high value-added products and services alongside more traditional production.

Changes were made to the regional aid regime in response to the regional aid guidelines, with the new map approved in 2007 and reductions in award rates. There has been a progressive reduction in traditional regional grant aid under Law 488/1992. This has seen a shift from traditional regional aid towards more thematically focused support for large projects, as well as automatic tax concessions for investment and job creation in the *Mezzogiorno* originally introduced in 2000. Specific regional policy changes were announced in the **2007 Finance Law** which introduced new automatic tax credits for investment in the *Mezzogiorno*, and especially in the **2008 Finance Law** that includes: an automatic tax credit for new permanent jobs in the *Mezzogiorno* (involving funding of EUR 200 million per annum for 2008-10); the reallocation of regional aid to other (mainly *Mezzogiorno*) development measures; and new fiscal support for disadvantaged urban areas (*zone franche urbane*). In addition, a July 2008 parliamentary bill aims to launch so-called **re-industrialisation programme agreements** to support areas facing pollution or industrial crisis.

Budget structure

The resources planned for the new unitary policy are outlined in the 2007-13 NSRF. This suggests that the total funds available for 2007-13 are EUR 100 billion, consisting of EUR 64 billion from the FAS, EUR 28.8 billion from the European Structural Funds plus national and regional co-financing. Of this total, 80% will be allocated to the *Mezzogiorno*, including EUR 54.7 billion under the FAS, EUR 23.9 billion nationally co-financed and EUR 23 billion from the Structural Funds. This slightly increased the proportion of explicit regional policy funding flowing to the *Mezzogiorno*, which is estimated to have been just less than 79% between 1998 and 2006. Domestic and EU funds are allocated between regions based on a dimension and disadvantage index. However, following the election of the new government and its pledge to balance the budget by 2011, and the 2009 economic crisis, there has been a significant cut in the national component of FAS funding (nearly EUR 10 billion) as part of broader expenditure cutbacks. It will have more of an effect on those parts of the *Mezzogiorno* outside the EU Convergence regions.

Governance structures

Italy moved towards a federalist direction in the late 1990s when it decentralised spending, regulatory and tax powers which was codified by the 2001 constitutional reform. Constitutional reforms and legislative initiatives over the past decade have resulted in the transfer of a wide range of competences on economic development to the

regions. The Constitutional Act of 2001 enshrines the principle of subsidiary that now governs the sharing of responsibilities between central and sub-national governments, where the central state retains only those competencies strictly spelled out by law.

More than 30 years after the establishment of the regions in 1970, and given the high-level of decentralisation of legislative power and administrative competencies at the sub-national level that has been achieved since the late 1990s, regions are currently fully acknowledged as self-governing organisations. The full implementation of financial decentralisation is currently under discussion. In light of this process, the Italian institutional setting can be identified as a regionalist one. Many of the responsibilities and tasks transferred to the regional level are related to economic development. The multi-level governance of regional policy suits the new institutional setting well.

Although regions are directly responsible for programming, managing and monitoring activities related to operational programmes, the unitary approach to regional policy reasserted the role of the national level, particularly the lead role of the **Ministry of Economic Development (Department for Development and Economic Cohesion – DPS)**, in setting out an integrated framework of domestic and European regional policy objectives, ensuring integrated approaches across administrative levels and aligning domestic and EU-funded interventions.

The sophisticated system for implementing the new unitary regional policy, which incorporates the creation of **unitary (single) programming documents** by each regional and national administration emphasises co-ordination to counter the increased complexity of policy. The NSF 2007-13 has established a series of thematic committees which, through the participation of national and regional authorities, should help to co-ordinate policy implementation. The most important of such committees is the **National Committee for the Co-ordination and Monitoring of the Unitary Regional Policy**. It discusses programme documents, the transfer of functions from the centre to the sub-national authorities, and general allocation criteria for regional development funds. The committee, who meets at least once a year, involves all regional and national administrations in charge of the implementation of regional policy and socio-economic partnerships. Additionally, direction and implementation committees are being established for different policy sectors, together with a **National Table** for the co-ordination of national-level regional policy and various thematic working groups.

The choice of contractual instruments as a strategy for co-ordinating development policies involving multiple public and private actors, complex decision making and the unified management of financial resources dates back to the mid-1990s. Within the sphere of regional policy, the **Institutional Agreement** (*Intesa istituzionale di programma*) not only incorporates horizontal co-operation mechanisms but also facilitates negotiations between the regional and national levels on major public investments since 2004. This arrangement is codified at the national level by **framework programme agreements** (*Accordo di programma quadro*) wherein the central administration and regions set out the multi-annual intervention plan with local authorities and the private sector, which includes the main projects and activities, the necessary procedures, the division of responsibilities, the funding sources and the monitoring and evaluation processes. The agreements are co-funded by all administrative bodies involved. The NSF also promotes an inter-regional approach to enhance the effectiveness of certain policy actions, leading to more coherent policy implementation. In particular, **inter-regional operational programmes** (*Programmi Operativi Interregionali*), managed by regions with the participation of national centres of

competence or central administrations, aim to strengthen dialogue and co-operation among regions and between central and regional administrations in the energy and tourism sectors.

The legislative Decree 267/2000 and the recent Law 42/2009 regulate the establishment of **metropolitan cities** (*città metropolitane*) to improve the administrative co-ordination between big cities and smaller communes in their hinterland. The latest Law 42/2009 defined nine such metropolitan cities in ordinary status regions: Bari, Bologna, Florence, Genoa, Milan, Naples, Reggio Calabria, Turin and Venice.

Performance monitoring: Evaluation units are established both at central (DPS Public Investment Evaluation Unit) and at regional levels within the National Evaluation System for the evaluation and monitoring of public investments. In terms of performance monitoring, regional policy includes sanction and reward mechanisms in the territorial allocation of funds. Regional policy is subject to ongoing monitoring and evaluation. Covenants have been put in place between the National Statistics Institute (ISTAT) and the Department for Development and Economic Cohesion (DPS) to increase the supply of territorial data and indicators with respect to both administrative and functional areas: regions, provinces and municipalities; local labour market systems, protected areas and the like.

The **Regional Public Account (RPA) database**, provided by a central team of the DPS Public Investment Evaluation Unit and by 21 operational units located in each region, provides information on revenue expenditures (on current and capital accounts) of government entities in the individual regions. Knowing not only how much is spent but also where it is being spent is essential for ensuring the transparency of public action and for verifying that economic efficiency and equity are preserved. The database, constructed on the basis of data available since 1996, is comprehensive, flexible and territorially detailed. The database covers the wider public sector and permits flexible use for various sub-aggregates covering macro-areas and administrative regions, sectoral classifications, economic categories, definitions of government expenditure and final expenditure recipients. The RPA database provides annual data with a lag of about 12-18 months. Reducing the lag time was possible because of the attainment of the objectives established under the performance reserve mechanism for the regional teams.

Note

1. The performance reserve system of the programming period 2000-06, promoting the modernisation of the public administration is analysed in detail in *Governing Regional Development Policy* (OECD, 2009c). The major difference between the former and the current systems lies in the transition from a performance assessment of process and output indicators to one based on outcome and equity indicators.

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Japan

Table 2.16. **Japan**

Country structure	• Unitary, three levels of government (national, 47 prefectures [*to, do, fu,* or *ken*], 1 795 municipalities [*shi, cho,* or *son*])
Problem recognition	• Regional disparities (mono-axis spatial structure) • Ageing society, decreasing population and the impact on regions • Response to global scale environmental problem
Objectives	• Growth of regional blocs based on regional assets
Legal/institutional framework	• National Spatial Planning Act (2005) • National Spatial Strategy and regional spatial strategies
Spatial orientation	
Urban policy framework	
Rural policy framework	• Basic Plan on Food, Agriculture and Rural Development (2005)
Major policy tools	• Regional support by the Integrated Bureau for Regional Revitalisation • Priority Plan for Public Infrastructure • Urban Renaissance Programme • Community Renovation Grant • Industrial cluster projects and Knowledge Cluster Initiative • Special aid to depopulated areas and other designated areas • Local Allocation Tax (fiscal equalisation scheme)
Policy co-ordination at central level	• National Spatial Strategy (National and Regional Planning Bureau)
Multi-level governance between national and sub-national levels	• National Spatial Strategy and regional spatial strategies • National and Regional Planning Bureau and regional planning councils
Policy co-ordination at regional level (cross-sectoral)	• Regional spatial strategies • Regional planning councils
Policy co-ordination at regional level (geographic)	• Regional spatial strategies • Regional planning councils • Municipality mergers
Evaluation and monitoring	
Future directions (currently under discussion)	

Regional problems

Tokyo is at the top of the mono-axial spatial structure. This structure brought about the depopulation of the countryside, delays in improving the living environment in metropolitan areas, and fragility against disaster. In particular, small cities, villages and mountainous areas have decreased regional vitality and face the challenge of maintaining social service provision in the context of a decreasing and ageing population. Additionally, the transformation of economic and social trends, such as the declining population, and the economic development of East Asian countries calls for a new growth strategy. It is also necessary to find a response to global environmental problems. Geographic expansion of economic activity increases the importance of regional bloc-level policies, such as the strategic development of international logistics, high-speed transport systems, and regional-wide tourism routes.

General objectives of regional policy

The national strategy provides long-term and comprehensive spatial perspectives with the five following strategic objectives: further developing economic co-operation with growing East Asian countries and regions; maintaining communities in regions; formulating a disaster resilient society; managing national resources and landscape; and growing partnerships between government and "new public agents" such as local communities, NPOs and the private sector. The vision of the national spatial strategy is:

> Regional blocs will improve its growth power by promoting unique regional strategy based on the regional assets and co-operating with other countries and regions in East Asia. This will lead to spatial structure based on autonomously developing regions and living environment with vitalised economy and a sense of richness. Communication and co-operation of those diverse regional blocs will mitigate mono-centric spatial structure.

Legal/institutional frameworks of regional policy

The **national and regional spatial plans**, based on the National Spatial Planning Act of 2005, are long-term, comprehensive spatial plans covering wide issues such as land resources, coastal area management, disaster management, the improvement of urban/rural areas, the location of industries, infrastructure, culture, tourism, and environment. The national-level strategy was approved by the Cabinet in 2008. The whole territory (except for Okinawa and Hokkaido) was divided into eight planning regions in 2006. The eight **regional spatial strategies**, based on the national strategy, were planned by regional planning councils and approved in 2009 by the Minister of Land, Infrastructure, Transport and Tourism.

The **Priority Plan for Public Infrastructure** is a five-year, outcome-based plan which guides the direction of infrastructure development. Nine fields of infrastructure (road, transport safety facilities, airports, ports, urban parks, sewage water, water management, the management of highly sloped areas, and coastal management) are integrated in this plan. The current plan, which was approved in March 2009, applied to FY2008-12 and focuses on regional vitalisation and growth. A regional level priority plan

is also produced in each regional bloc. Outcome indicators are introduced as part of these objectives.

In response to the recession since the 1990s, a series of place-based regional policies were promoted under the strong leadership of the Prime Minister who co-ordinates the interests of line ministries (horizontal governance) and takes advantage of local initiatives (vertical governance). These policies represent a shift of regional policy from conventional large-scale and direct public investment to a policy focused on promoting private-sector real estate investment with incentives provided by the national government, notably through deregulation and faster approval procedures for projects.

In 2001, the **Urban Renaissance Bureau** was established to promote urban development as part of economic structural reform. In 2002, the Bureau for Promotion of "**Structural Reform Special District**" was established to designate special districts where exceptional deregulation is allowed depending on the characteristics of the place. This was to promote structural reform in areas such as education, agriculture, and social welfare for revitalising regions and developing the national economy. In 2003, the Bureau for **Regional Revitalisation** was established to comprehensively promote the revitalisation of regional economies and the creation of regional employment. The bureau co-ordinates line ministries and provides grants and tax exemptions on the basis of requests from local governments.

Additionally, in 2006, the **Bureau for Inner City Revitalization** was established to increase the urban function of inner cities and promote economic revitalisation in a comprehensive and integrated way. In 2007, four bureaus were integrated into an **Integrated Bureau for Regional Revitalisation**, to promote a comprehensive place-based strategy for regional revitalisation. The bureau is directly under the Cabinet and introduced new place-based policies such as the environmental model city while continuing the work of the former four bureaus.

The Japanese government has placed a high priority on addressing the problems of Japan's major urban centres, regarding urban areas as "motors" of the national economy. The cornerstone of the government's policy has been the **Urban Renaissance Programme**, a group of measures designed to enhance the competitiveness of cities by improving urban environments and galvanising the urban land market. Particular features of these measures are their emphasis on deregulation and the role of private sector initiatives for investment.

Rural policy, which is promoted by the Ministry of Agriculture, Forestry and Fisheries, is based on the **Basic Plan on Food, Agriculture and Rural Development** of 2005. This is a long-term basic plan targeting 2015, covering a wide-range of issues such as food, farmers, farmland and rural environments. As for rural development, it promotes the preservation and management of regional resources in rural areas, the vitalisation of rural economies based on regional assets, rural-urban linkages, and the improvement of the living environment in rural areas.

Depopulated areas continue to receive special aid based on the law designed to "promote the independence of depopulated areas". In addition, a number of laws have been enacted to target aid to specific types of regions including mountainous regions, snowy regions, peninsula regions, remote islands, and areas with special soil conditions (*e.g.* volcanic deposits).

Main implementation tools

Community renovation grants were established in 2004 in order to implement a unique community initiative development that brings together regional history, culture and natural environmental features. The grant has the following characteristics: municipality decision making; a shift from sector-based support to integrated programmes; and improved accountability by a series of project assessments. The grants used by municipalities increased from JPY 133 billion (355 districts) in FY2004 to JPY 251 billion (1 428 districts) in FY2008.

The **Industrial Cluster Project** has been promoted by the Ministry of Economy, Trade and Industry (METI) since FY2001. The project aims to form industrial clusters to encourage innovation and help venture companies in regions. In 2009, 18 projects nationwide built close co-operative relationships with about 10 200 regional SMEs and more than 560 universities. METI allocated JPY 16.6 billion for the projects. The Ministry of Education, Culture, Sports, Science and Technology has promoted the **Knowledge Cluster Initiative**. The both METI and MEXT have jointly established a Regional Cluster Promotion Council and co-operated for cluster formation.

Budget structure

A fiscal equalisation scheme called the local allocation tax (LAT) co-ordinates the budget imbalance among local governments. Distribution of the LAT to local government is made on the basis of estimates of standard revenue and standard expenditure of local government. The central government has promoted "Trinity reform" since 2002 as part of the decentralisation reform. The reform consists of three factors: the transfer of tax sources from the central government to local governments, reconsideration of the equalisation tax and the abolishment and reduction of national grants. Through 2007, based on the Trinity reform, some tax sources were transferred and the equalisation tax and national grants decreased. In 2007, local tax was the largest revenue for local government (44.2%), followed by LAT (16.7%) and national grants (11.2%).

Governance structures

At the national level, the **National and Regional Planning Bureau** in the Ministry of Land, Infrastructure, Transport and Tourism is responsible for co-ordination among line ministries as well as between national and local governments through its spatial planning system. At the regional level, the **Regional Planning Council,** consisting of members such as regional offices of national sectoral ministries, local governments, and economic associations, drafts and discusses the Regional Spatial Strategy in each region (generally equal to TL2[1] level). The regional strategies are then approved by the Minister of Land, Infrastructure, Transport and Tourism, thus ensuring the consistency of national objectives and regional strategies.

At the central government level, the **Ministry of Land, Infrastructure, Transport and Tourism (MLIT)** has the main responsibility for national spatial development and planning, urban and regional policy, as well as infrastructure development in general. However, other ministries also have an impact on regional development. Among them are the Ministry of Agriculture, Forestry and Fisheries (rural development); the Ministry of

Economy, Trade and Industry (regional economic development especially for SME support and cluster formation); and the Ministry of Internal Affairs and Communications (the management and finance of local government).

The first step towards decentralisation took place in 1995 with the passage of the Decentralisation Promotion Law. A series of reforms clarified and allocated the roles and responsibilities of central and local governments. The new government has continued these efforts and established the Strategic Conference for Regional Autonomy in December 2009. The conference is chaired by the Prime Minister. Measures such as the national government's universal standard-setting in public service provision and reporting/consulting requirement to the related ministers by local government are re-considered to promote more flexible regional policy making based on the initiatives of local governments.

The number of local governments decreased from 3 232 in 1999 to 1 795 in March 2008. The primary motivations for the recent round of mergers were to: promote further decentralisation, address demographic shifts (in particular the ageing population), encourage mobility and address serious fiscal constraints at the central and sub-national levels. Municipal mergers are seen as a way to enhance the efficiency of local governments. While the Japanese government did not set an optimal size as part of the merger process, it did set a target of 1 000 municipalities. Local governments were encouraged to merge prior to 31 March 2005 (the expiration date of the Special Merger Law), when localities would no longer be eligible for national subsidies for amalgamation. Based on the New Special Merger Law of 2005, some incentives continued to be offered to the merged municipalities through the end of March 2010, to further promote municipal mergers. Softer measures such as voluntary inter-municipal associations exist for joint public service provision.

Note

1. The OECD's current territorial database (covering 31 member countries excluding Slovenia) encompasses yearly time-series for around 40 indicators of demography, economic accounts, labour market, social and innovation themes at two sub-national administrative levels: that of large regions (TL2 = some 300 such regions) and small regions (TL3 = approximately 1 800 regions).

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Korea

Table 2.17. **Korea**

Country structure	• Unitary, three levels of government (national; nine provinces [*do*], six metropolitan cities [*gwangyeoksi*], one special city [*teukbyeolsi*]; 75 cities [*si*], 86 counties [*gun*], 69 autonomous districts [*gu*])
Problem recognition	• Lack of competitiveness • Regional disparities
Objectives	• Establishment of economic regions • Regional development based on specialisation • Decentralisation and local autonomy • Inter-regional co-operation and collaborative development
Legal/institutional framework	• Framework Act on the National Territory (2002) • Special Act on Balanced National Development (2004) • Comprehensive National Territorial Plan (2006-20) • Five-year Regional Development Plan (2009-13)
Spatial orientation	
Urban policy framework	
Rural policy framework	• Creative regions (currently under discussion) • Five-year Plan for Improving Rural Quality of Life (2010-14)
Major policy tools	• Regional Development Special Account • Tax cut (incentive)
Policy co-ordination at central level	• Presidential Committee on Regional Development (since 2009) • Co-ordination of the Ministry of Land, Transport and Maritime Affairs (MLTM) • Comprehensive National Territorial Plan, five-year plans for regional development
Multi-level governance between national and sub-national levels	• Comprehensive National Territorial Plan, five-year plans for regional development
Policy co-ordination at regional level (cross-sectoral)	• Economic Region Development Committee • City/Province Development Committee
Policy co-ordination at regional level (geographic)	• Economic regions • Metropolitan City Plan • Metropolitan Development Project Plan
Evaluation and monitoring	• Annual Performance Assessment of Five-year Regional Development Plan
Future directions (currently under discussion)	• Green growth • Re-organisation of administrative districts

Regional problems

Throughout the "development era" that began in the 1960s and ran well into the 1980s, Korea deployed an export-oriented and centrally organised heavy industrialisation policy, favouring the so-called *Gyungbu* development corridor (Seoul-Busan-Ulsan-Gyungnam province axis). The continuing influx of population and industries into the *Gyungbu* corridor has resulted in significant regional imbalances and caused several socio-economic concerns. Korea has especially faced social problems arising from the concentration of resources and economic activities in the Capital Region. About 49% of the total population is concentrated in the Capital Region, which covers only 12% of the national territory. Apart from the population, cultural and social resources, quality job opportunities and high quality services are also concentrated in the Capital Region. Accordingly, regional disparities have become the main issue of regional policy.

Another challenge is the weak global competitiveness of Korean regions when compared internationally. This deserves policy attention. The Capital Region is the third largest region in terms of population, and ranks ninth in terms of the size of gross regional domestic product (GRDP) among the 324 regions of OECD member countries. However, its rank of per capita GRDP is quite low. This suggests that the Capital Region needs to improve its global competitiveness.

General objectives of regional policy

Since it was inaugurated, the Lee Myung Bak government has been shifting the direction of its regional development policy following the results of the policy evaluation and direction of other important national policies. The new five-year Regional Development Plan presents the following objectives to encourage competition and liberalisation, the co-development of metropolitan and non-metropolitan areas, decentralisation and open-door territorial operations: the establishment of economic regions, regional development based on specialisation, decentralisation and local autonomy, inter-regional co-operation and collaborative development. Korea's 4th Comprehensive National Territorial Plan for 2006- sets five objectives for achieving a dynamic and integrated national territory, a balanced territory, an open territory, a welfare territory, a green territory and a unified territory.

Legal/institutional frameworks of regional policy

The 4th Comprehensive National Territorial Plan (CNTP) is the primary instrument used to achieve Korea's territorial policy goals. The plan is formulated in accordance with the Constitution, which stipulates a national plan for the balanced development and use of the national territory and indicates nationally protected resources. It is based on the Framework Act on National Territory of 2009. The CNTP presents the principal and long-term direction of the country's spatial development "in a manner to adapt to future economic and/or social changes in Korean territory's use, development and conservation". The CNTP was formulated for a 10-year period but the term was extended to 20 years from the 4th CNTP in 2000 (targeting 2000-20). This long-term plan is drafted by the Ministry of Land, Transport and Maritime Affairs (MLTM) and enables the MLTM to gain support from other ministries for implementing it. The CNTP benefits from inter-ministerial co-ordination and is approved by the Cabinet. The 4th CNTP will be

reviewed and modified every five years under the related acts. Accordingly, the CNTP was modified in 2005.

In parallel with the CNTP, Korea has set **five-year plans for regional development**, based on the Special Act for Balanced National Development. The new government renamed the five-year Balanced National Development Plan as the Five-Year Regional Development Plan, and modified and finalised related sub-plans in 2009. The Five-Year Regional Development Plan aims at creating a community by securing global competitiveness and improving the living standards of regional economies. The plan is comprised of sectoral plans which are developed on the basis of the four major ministerial development strategies (increasing growth potential, creating a pleasant living environment, promoting openness and co-operation, and achieving regionally driven mutual development) and economic regional plans developed by the Economic Region Development Committee.

Under the plan, the government will secure growth potential by designating **5+2 economic regions**, create a pleasant living environment by structuring the nation into 163 cities and counties, promote open markets and co-operation by developing supra-economic regions in eastern, western and southern coastal and border areas. In 2008, the Korean government announced "Five Economic Regions" which divide the whole territory into five sub-economic blocs (except two regions: the mountainous northeast area and Jeju Island). Each of these regions, with a population of more than 5 million, constitutes two or three provinces (or provincial cities) which share similar historic, economic and social contexts. In order to effectively mobilise collaboration among provinces in the same economic region, an autonomous regional headquarters, rather than permanent supra-province bodies, were installed in each region by 2009. These autonomous organisations create a regional development plan for each region, and promote horizontal co-operation among local governments in general.

The **Five-Year Plan for Improving Rural Quality of Life** was developed and implemented in 2010 to create a pleasant rural area where livelihood, workplace and resting places are in harmony. Under the plan, **service standards on rural areas** were set up and a new system called **guidelines for rural impact management** was introduced to achieve the goals of the plan. The service standards indicate the minimum level of each public service necessary for the life of rural people and will be used as guidelines on government policy development. The guidelines monitor government policies to prevent them from having a negative impact on rural areas and minimise disadvantageous and discriminatory impacts. Currently, discussions are underway on a policy which transforms rural areas into creative areas and drives rural development. The policy focuses on creativity to find regional potential and identity; creates new cultural, social and economic values of a region by promoting culture, education, welfare and environmental strategies; and makes the region a pleasant area where everybody wants to live.

The recent regional policy also follows green growth. It aims to mitigate climate change and environmental degradation by saving and efficiently using energy and resources; to secure new growth engines through R&D on clean energy and green technology; and to create new jobs with a view to balancing the economy and the environment.

Main implementation tools

The Special Account for National Balanced Development was reorganised and the **Regional Development Special Account** was established to expand fiscal spending for local municipalities. Some value-added taxes are collected under the name of local consumption taxes to increase the tax revenue base of local municipalities. Two hundred projects were integrated into 24 comprehensive projects, and a block grant was adopted to give local municipalities the authority to design projects autonomously.

Budget structure

In spite of continuous demands for fiscal decentralisation, local governments in Korea still depend considerably on earmarked funds from central government, having little discretion over tax. Some value-added taxes are collected under the name of local consumption taxes to increase the tax revenue base of local municipalities. Fiscal imbalance has been covered by tax-sharing agreements (local shared tax) and inter-governmental transfers from central government (a block grant to promote capital investment called national earmarked categorical grants). In 2005, fiscal reform was enacted establishing the "Special Account for National Balanced Development" which transformed many specific-purpose grants into integrated national grants for regional development that were otherwise scattered in the central government's accounts. The Special Account for National Balanced Development was then reorganised and the **Regional Development Special Account** was established in 2009 to expand fiscal spending for local municipalities. Two hundred projects were integrated into 24 comprehensive projects and a **block grant** was adopted to give local municipalities the authority to autonomously design the projects.

The Regional Development Special Account is worth about KRW 10 trillion. It consists of the Economic Region Development Sub-account, Local Development Sub-account and Jeju Sub-account. The Economic Region Development Sub-account provides financial support for aforementioned Economic Region projects while the Local Development Sub-account supports local area projects. The budget allocation procedure was streamlined so that local municipalities can directly apply for budget through central governments. The evaluation process on budget execution was undertaken separately by ministries but has been integrated into one comprehensive evaluation carried out by the Presidential Committee on Regional Development.

Governance structures

In a broader sense, many Korean ministries are involved in territorial development policies, and have sometimes competed with each other to lead the process. In order to address this matter more effectively, the Presidential Committee on Balanced National Development (the **Presidential Committee on Regional Development** since 2009) was established in 2004. The current Presidential Committee is in charge of comprehensive co-ordination and evaluation of regional development policy including basic direction, five-year regional development plans, and measures for regional development, project management and evaluation. The committee, composed of nine ministers and 17 external experts, has played a key role in setting the strategic direction and prioritising investment in nationally significant regional development projects.

The **Economic Region Development Committee** and the **City/Province Development Committee** were established to co-ordinate regional policy at the economic region, city and province levels. The Economic Region Development Committee promotes the Economic Region's development and identifies co-operative projects between cities and provinces. The City/Province Development Committee co-ordinates and consults on important matters regarding city/country development. Each organisation is comprised of a head of the government (*e.g.* mayor or governor) and private experts.

For narrower territorial development policies, however, the **Ministry of Land, Transport and Maritime Affairs (MLTM)** acts as the leading co-ordinating body. The MLTM builds consensus on regional development plans with other ministries, taking advantage of competence to establish the long-term Comprehensive National Territorial Plan (CNTP).

Korea's central government exercised extensive influence over most policy areas of local governments. During the 1990s, however, the Korean government undertook a sweeping decentralisation reform. It started with the revision of the Local Autonomy Act of 1988 to provide legal foundations for the re-establishment of local assemblies in 1991 and the direct election of local chief executives in 1995. Succeeding governments have continued this decentralisation process. In 2003, the Presidential Committee on Government Innovation and Decentralisation was set up. In 2004, the Five-Year Plan for Balanced National Development was established, setting 47 strategic goals to promote local autonomy. In 2006, the Jeju Province Special Autonomous Act was established to integrate all branches of central government into the Jeju Province government.

Decentralisation in Korea, however, is not yet fully fledged and there are some areas that could be improved. For instance, a significant share of local government's work is still delegated from the central government, while a key part of the central government's function is implemented by its special agencies at the local level. Many ministries in the central government have deconcentrated special regional agencies to implement their regional policies, while delegating many inconsequential functions to local governments. However, in July 2008, the Korean government announced mid-term plans to devolve considerable power from these special agencies to local governments. First, the government will transfer the authority of special agencies to local governments, to enforce laws in the fields of rivers, roads, ports, food and drugs. Then, the government will provide local governments (city/province/autonomous districts) with authority to adopt a self-governing police system, develop plans, organise local municipalities and have the autonomous right of decision under the Ordinance of Personnel Management Right.

Besides, for each ministry and sector, the Presidential Committee on Regional Development will develop a measure to overhaul and systematically re-organise the overlapping of local development projects implemented by the central government. Each ministry's sectoral local development projects (currently implemented by the central government for 163 local governments) have for a long time brought about budget waste and poor implementation due to overlapping administrative areas and plans. Therefore, the committee plans to integrate or merge overlapping projects and give authority to local governments for more flexible budget management with a view to increasing the overall autonomy of local governments.

Co-ordination tools exist in metropolitan areas. The **Metropolitan City Plan** is to be drawn up by the mayor or provincial governor of the area concerned. A plan involving metropolitan area development of at least two local governments is subject to the approval of the MLTM Minister. The **Metropolitan Development Project Plan** stipulates that a region may be designated and developed as a metropolitan development zone when large-scale development is deemed necessary. When designating such a zone, the head of the relevant central administrative organisation participates with the relevant provincial governors, mayors and so forth. The plan is designed to include all matters related to the land use, the allocation of metropolitan public facilities, environmental preservation and so on.

Recent developments: The government recognises the need to re-organise administrative districts. The development of transport and communication systems has significantly increased people's living space (functional area) while the size of administrative districts is relatively narrow compared to the expanded functional areas. Accordingly, the government is considering simplifying the three-tier administrative structure, extending the size of administrative districts, and redistributing administrative functions to improve national competitiveness.

In addition, the government will promote decentralisation and deregulation as a way to enhance local community-driven development. For example, the government is deregulating land use and urban planning by streamlining procedures regarding factory construction and industrial complex development.

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Luxembourg

Table 2.18. **Luxembourg**

Country structure	• Unitary, two levels of government (national, 116 municipalities)
Problem recognition	• Lack of economic diversification • Centralisation of economic activities in the centre of the country • Cross-border traffic congestion • Rural municipalities which are recently experiencing substantial ex-urban development
Objectives	• Increase competitiveness • Preserve territorial cohesion • Sustainable development
Legal/institutional framework[1]	• Master Programme for Territorial Development (*Programme directeur d'aménagement du territoire*) • Integrated Transport and Spatial Development Concept • Regional plans • Primary and secondary sectoral plans • European Grouping of Territorial Co-operation (EGCC)
Spatial orientation	• Polycentric territorial development
Urban policy framework	• National Information Unit for Urban Policy (*cellule nationale d'information pour la politique urbaine,* CIPU) • Conventionalised informal agreements
Rural policy framework[2]	• Nature parks
Major policy tools	• Economic activity zones • Cluster programme, business parks • Grants of State Aid Commission • Commune Financial Grant Funds
Policy co-ordination at central level	• Co-ordination of the Ministry for Sustainable Development and Infrastructures • Master Programme for Territorial Development • Inter-ministerial Committee for Territorial Planning • Superior Council for Territorial Planning
Multi-level governance between national and sub-national levels	• Regional plans • Informal agreement between state and municipalities
Policy co-ordination at regional level (cross-sectoral)	• Regional plans
Policy co-ordination at regional level (geographic)	• Regional plans • Informal agreement between state and municipalities • European Grouping of Territorial Co-operation (EGCC)
Evaluation and monitoring	• Establishment of territorial observatory
Future directions (currently under discussion)	• Territorial and administrative reform (*e.g.* abolition of cantons and districts, introduction of urban communities [*communautés urbaines*])

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The regional problems have been traditionally associated with the restructuring of the coal and steel industries in the south and with fragile rural areas in the north. The key challenges are the lack of economic diversification (with a focus on the financial services sector as the motor for development), the strong degree of centralisation of economic activities in the centre of Luxemburg and accompanying congestion problems. These aspects have been aggravated by more recent challenges linked to demographic and migratory trends. Because it is a border region, cross-border commuting and congestion has contributed to transport and environmental problems. There has been ongoing debate on territorial and administrative reform, focusing particularly on the possibility of merging municipalities which may lack the critical mass to provide services.

General objectives of regional policy

Regional policy has long been driven by the need for economic diversification. In recent years, this has caused policy to focus on development opportunities in the fields of innovation and research. This also reflects the country's preoccupation with the Lisbon Strategy, seen as a path towards competiveness and full employment. Preservation of territorial cohesion and sustainable development are also important regional policy objectives.

Legal/institutional frameworks of regional policy

The **Master Programme for Territorial Development (*Programme directeur d'aménagement du territoire*)**, revised in 2003 and valid for five to ten years, sets out the spatial objectives for Luxembourg and provides examples on how they could be implemented. It is a policy paper for sustainable development, a tool for spatial coherence and the application of the major principles of spatial planning. Territory is classified into very dense, dense, "rurban", rural, and urban centres in a rural setting. All six planning regions have one or more urban centres, called Centres of Development and Attraction (CDA), a kind of development pole, thus polycentric spatial patterns are promoted. The "*Programme directeur*" describes the co-ordination of the aims of the guiding sector plans and defines the principal spatial development guidelines according to the overall objective of sustainability. It is a non-binding document which guides the approaches and decisions of the government and the local authorities.

Regional plans (*Plans directeurs régionaux* – PDR) are to be established in each of the six "development regions" which divide the territory. The PDRs are intended to implement future regional development and are prepared by joint working groups of representatives of the ministries concerned and representatives of the communes which are part of the Planning Region. Each draft plan is subject to the approval of the Council of the Communes, the Inter-ministerial Committee for Territorial Planning (CIAT) and the Superior Council for Territorial Planning (CSAT).

The mechanisms for co-ordination of the spatial dimension in sectoral policies are the so called **guiding sectoral plans** (*Plans directeurs sectoriels*). They specify the guidelines of the "*Programme directeur*" and seek to improve horizontal co-ordination at the national level. These plans are elaborated in co-operation with the respective sectoral

ministries and have to consider the spatial development principles and objectives, and represent the key instrument of spatial co-ordination at the national level. The guiding sectoral plans are legally binding instruments, which have a direct impact on the plans at regional or local level. Sectoral plans fall into two categories. The primary plans are those that have a direct impact on territorial organisation and land use. They relate to transport, housing, landscapes and forests and economic zones. The secondary sectoral plans have a less direct impact on land use for they relate generally to specific installations that simply have to be organised in light of the objectives in the Master Programme. They actually include secondary education, base stations for mobile telephones, hazardous facilities and inert waste discharges.

The "Integrated Transport and Spatial Development Concept for Luxembourg" (*Integriertes Verkehrs- und Landesplanungkonzept für Luxemburg* – IVL), adopted by the government in 2004, offers guidance on how to concretely translate the spatial planning principles set out in the "*Programme directeur*" into practice. This also constitutes a framework for the planning policies of regional and local authorities (focusing mainly on traffic flow networks). By using integrated thinking and co-ordinated action plans for transport and spatial planning issues, the IVL constitutes a new planning approach which will have a major influence on planning practice in the long run.

Even though Luxembourg does not have a concerted national urban policy, urban issues have gained importance in national and local politics over the years. The *Programme directeur* contains a marked urban component. A key objective defined in this programme is sustainable urban development. The growing importance of urban policy issues urged the DATer of the Ministry for Sustainable Development and Infrastructure to create a **national Information Unit for Urban Policy** (*Cellule nationale d'information pour la politique urbaine* – CIPU) in July 2008. The objective of CIPU is to create a platform where urban actors can exchange their experiences and knowledge, find information on urban policy issues and get assistance if they want to develop projects. Furthermore, the CIPU's aim is to assure and co-ordinate collaboration between national and European urban stakeholders by means of networks, databases and exchanges of knowledge. Finally, the CIPU serves as the national focal point for European Urban Knowledge Network (EUKN) and contact point for URBACT programme, a European programme for sustainable urban development.

Regarding the development of rural areas, an accelerated reduction in the number of firms, the growing specialisation of remaining agricultural activities and reduced farm employment can be observed. The rural regions of Luxembourg have also faced a profound economic and social upheaval generated by the burgeoning of their population over a period of less than 20 years. This poses the need to create regional markets offering attractive and high-skilled jobs in order to limit the flow of commuters toward the cities.

A key element of Luxembourg's approach to integrated rural development is the establishment of two **Nature Parks** in the northern part of the country. Two other Nature Parks are also under study: one in the east of the country and the other in cross-border upper Mosel region. The Nature Parks provide a framework for actions to promote sustainable socio-economic development of the region in accordance with the protection and upgrading of its natural and cultural heritage. Each Nature Park is intended to conserve its natural setting, wildlife, vegetation and cultural heritage. Tourism and recreational activities are primarily promoted for economic and social development that is

compatible with these principles. Nature Parks are run on the basis of a joint board of *syndicats*, a partnership between the central government and the concerned communes.

Furthermore, a project aiming at cross-border networking between the Nature Parks of the Greater Region was initiated under the INTERREG IV A Greater Region Programme. It will finally lead to the creation of the "Network of Nature Parks in the Greater Region". The aim is to strengthen the role of Nature Parks in the construction of the Greater Region and, more particularly, to be a main tool for implementing a sustainable development policy through its economic development, environmental protection and social cohesion. Following project approval by the EU, the project was officially launched in 2008 with a budget of EUR 1.3 million, of which 50% is co-financed by the European Regional Development Fund. Currently, nine Nature Parks are members of the network: two from Luxembourg, five from Belgium, one from Germany and one from France.

Within the framework for the cross-border project Esch/Belval between France and Luxembourg, the ministers responsible for spatial development agreed to create a **European Grouping of Territorial Co-operation (EGTC)** on the territory around Belval/Alzette. The EGTC, which is a European instrument, provides a common legal tool in order to facilitate cross-border co-operation and to promote the integrative development of the territory around Belval-Alzette. The aim is to assure common development in order to promote harmonious social and economic development on each side of the border. Furthermore, the EGTC appears to be the best instrument to carry out joint projects and to better mobilise EU funds. The Belval/Alzette EGTC will allow multi-level governance including state and municipalities on the Luxembourg side and state, regions, departments and inter-communal local authorities on the French side.

Main implementation tools

Regional policy with regard to economic development and diversification focuses at first on the creation of the infrastructure for economic development. Most prominent in this context is the aforementioned guiding sectoral plan for "**economic activity zones**". The plan ensures spatial development in accordance with the overall objective of sustainable development, the *Programme directeur* and the orientation of the IVL. The plan is co-ordinated with the other sectoral plans for housing, transport and landscape. The plan indicates the need for reserving land for economic activities based on an economic and employment growth scenario until 2030. Furthermore, economic activity zones of national and regional importance are defined as well as enterprise and innovation centres.

The legislation supporting economic development covers a consultative commission, the so-called **State Aid Commission (*Commission aides d'État*)**, which supervises grants with regard to the following legislation: Law of 27 July 1993 (modified by the Law of 18 December 2008) concerning the objectives of economic development and diversification, and the improvement of the general structure and regional balance of the country; and the Law of 15 July 2008 for regional economic development which updated regional aid legislation from 2000 and introduced support for new small enterprises. Those laws offer the legal bases for grant schemes. For example, in 2008, the SME scheme (based on the Article 4 of the Law of 27 July 1993) supported 17 projects by an expected total financial intervention of EUR 2.7 million while the R&D scheme (based on Article 6 of the same law) granted EUR 22.5 million to 28 projects. The regional

scheme (based on Articles 2 and 10 of the Law of 15 July 2008) assisted five projects for a total of EUR 4.2 million. Combined, the overall grants amounted to EUR 29.4 million for 50 projects.

Apart from these grant schemes, there are further measures stimulating international economic relations by the Luxembourg Board of Economic Development (*Comité de développement économique* – BED) and sectoral initiatives such as action plans for logistics, health technologies and *écotechnologies*. Furthermore, assistance is set up based on the Law of 22 February 2004 which regards an aid system for environmental protection, the effective use of energy and the production of renewable energies.

Generally, policy has sought to improve general conditions for business across the country. This has involved encouraging innovation and competitiveness in support of the Lisbon Strategy (*e.g.* support for industrial clusters, activities to promote R&D, innovation and entrepreneurship), improving infrastructure (including major science and innovation parks), and facilitating access to appropriate funding via measures funded by the National Agency of Credit and Investment.

National measures show a more SME and sectoral orientation compared to the regional support provided in line with the EU regional policy financed under the Structural Funds. The measures include: R&D incentives, with an extra 5% available in designated aid areas; a **cluster programme**, which was launched in 2001 and includes aerospace, ICT and new material clusters; the provision of infrastructure for start-up companies and **business parks** (with the development of former steel industry premises through the City of Science, Research and Innovation project in Belval-Ouest and the Centre of Enterprise and Innovation [Ecostart] in Foetz); and support for the promotion of entrepreneurship. **Luxinnovation**, founded in 1982, focuses on SMEs and cluster development with nationwide coverage in those fields. It offers a one-stop shop for services to business in innovation, research, business creation and technology transfer sectors.

Impacts of EU regional policy

On 20 December 2007, the European Commission approved the operational programme for the Grand Duchy of Luxembourg for the period 2007-13. This operational programme comes under the Regional Competitiveness and Employment Objective, with a total budget of some EUR 85 million. Assistance from the EU under the European Regional Development Fund totals around EUR 25 million, representing 38.5% of Community contributions to Luxembourg under the 2007-13 Cohesion Policy. The programme devotes more than 80% to the Lisbon strategy with two priority axes: *i)* making Luxembourg an attractive location for investments and jobs; and *ii)* improving growth and innovation. In 2008, eight projects were selected, all related to the second priority axis confirming the Lisbon focus. Regional, SME, R&D and environmental protection aid scheme laws were revised in 2008-09 in response to new EU aid frameworks. Regional aid now includes not only grants but also interest payments, though tax relief is no longer available.

Budget structure

An equalisation scheme exists in the commune business tax (ICC). In addition, communes receive the Commune Financial Grant Funds (FCDF) from the state government. This fund is a non-earmarked resource for communes' operational expenditure. The FCDF has remained relatively stable since the beginning of the 1980s (around 30%) in terms of a proportion of a commune's ordinary revenue. The FCDF is divided among the communes by means of a basic block grant plus an amount that varies according to population, population density, surface area of greenfield land and the number of counsellors in the communal council.

Governance structures

The **Ministry for Sustainable Development and Infrastructures** is the key player in territorial development in Luxembourg. **The Department for Spatial Development (DATer)** of the ministry is responsible for territorial development and co-ordinates the sectoral ministries. The DATer's activity is ensured by the **Inter-ministerial Committee for Territorial Planning (CIAT)**, which co-ordinates, under the guidance of the minister in charge of spatial development, the preparatory works to provide a basis for decisions on different planning instruments (sectoral, regional and land-use plans), and makes comments on questions submitted by the minister as well as on suggestions and/or assessments from the Superior Council for Territorial Planning (CSAT). Moreover, the CIAT partakes in the elaboration of sectoral, regional and national programmes and is responsible for responding to observations from various local stakeholders regarding spatial planning plans and programmes. The CIAT is composed of delegates from all the ministries involved in the preparation of the different plans. The **Superior Council for Territorial Planning (CSAT)** advises on the draft Master Programme, regional and sectoral master plans. The CSAT is composed of a chairman nominated by the Grand Duke and a maximum of 19 members mostly from industry organisations and delegates of communes, nominated by the minister responsible for territorial planning. The **Ministry of the Economy and Foreign Trade (Regional Policy Directorate)** is responsible for the programming and management of EU Structural Funds and the National Strategic Reference Framework.

The unitary state is divided into three districts, six planning/development regions, 12 cantons and 116 municipalities. The districts and cantons are statistical and administrative units which act as intermediaries between the municipalities and the central government. Regional policy is administered centrally with no significant involvement of local actors. The district is a deconcentrated level of state administration. The district commissioner is a state official responsible to the Minister of the Interior. Cantons are a level of state administration, without their own competences. Planning regions are purely functional bodies with no administrative powers. However, communes of planning regions are primarily concerned with the development and implementation of regional plans. The mayor is both a representative of the commune and a body of the state. He/she is in charge of implementing laws and police regulations, in addition to other authorities and state administration. Due to the small size of Luxembourg, the Department for Spatial Development (DATer) has followed an approach to encourage communes to develop wider co-operation.

The aim of the **conventionalised informal agreements** (*Convention relative à un développement intercommunal coordonné et intégratif*) is to achieve the practical implementation of the objectives defined by the *Programme directeur* for urban centres. Thus a number of cities and adjacent municipalities have signed informal agreements or "*conventions*" with the Ministry for Sustainable Development and Infrastructures, aiming at: *i)* insuring greater sustainable development; and *ii)* co-ordinating the territorial development of the cities and adjacent municipalities involved. As a result, four new actors have emanated in the last few years: the NORDSTAD, an urban agglomeration of six municipalities in northern Luxembourg; the DICI, five municipalities south-west of the agglomeration of Luxembourg City; the municipalities adjacent to the Luxembourg airport; and the Alzette Valley Convention area (five municipalities north of the agglomeration of Luxembourg City). This process of co-operation and planning is supported by external experts who act as facilitators and moderators. A policy steering committee, co-chaired by a representative of central and local governments, and a technical steering committee chaired by the central government representative, are responsible for ensuring the achievement of the working programme.

In the South Region, the 12 communes united to form an inter-communal association (PROSUD) in 2003. The PROSUD set up a documentation and statistical and geographic data processing centre as a regional observatory. The PROSUD is still based on voluntary co-operation, financed by contributions from each commune and run by a committee of representatives solely from member communes.

Recent developments: A comprehensive debate on territorial and administrative reform is currently under way. Part of the debate concerns the role of municipalities in policy administration as the sparse population of numerous communes, the slow pace of mergers and the inadequate development of co-operation between communes hinder the achievement of critical mass for efficient policy delivery. Their capacity and influence could be boosted through increased inter-municipal collaboration and stronger co-operation with the central level. Proposals currently being debated include the abolition of cantons and districts, and the introduction of urban communities (*communautés urbaines*). The timetable foresees that the territorial and administrative reform should be completed by 2017.

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Mexico

Table 2.19. **Mexico**

Country structure	• Federal, three levels of government (national, 31 states and one federal district, 2 412 municipalities)
Problem recognition	• Regional disparities and lack of competitiveness
Objectives	• Regional balance, competitiveness and regional cohesion
Legal/institutional framework	• Federal Law of Planning and planning system • General Law of Human Settlements (LGAH)
Spatial orientation	• Urban Development and Territory Organisation National Programme (PNDUOT)
Urban policy framework	• General Law of Human Settlements • Urban Development and Territory Organisation National Programme (PNDUOT)
Rural policy framework	• Law on Sustainable Rural Development (LSRD) (2001) • Special Concerted Rural Development Programme (PEC)
Major policy tools	• National Development Plan (PND) 2007-12 • Regional Trust Fund (*Fideicomisos para el desarrollo regional*) and meso-regions • Regional Development Programme • Development for Priority Areas Programme (formerly Micro-Regions Programme) • National System of Fiscal Co-ordination
Policy co-ordination at central level	• Ministry for Finance and Public Credit (SHCP) • Ministry of Social Development (SEDESOL); Law on Sustainable Rural Development (LSRD) (2001) (rural)
Multi-level governance between national and sub-national levels	• Decentralisation agreements (*convenios*) • Planning system • Regional Development Programme
Policy co-ordination at regional level (cross-sectoral)	• Ministry for Finance and Public Credit (SHCP) • Ministry of Social Development (SEDESOL)
Policy co-ordination at regional level (geographic)	• State Planning Committee for Development (COPLADE) • Meso-regions and Regional Trust Fund • Inter-municipal associations (mainly at urban level)
Evaluation and monitoring	• External assessment of all public programmes • SEDESOL evaluation
Future directions (currently under discussion)	• National Strategy of Regional Development (under discussion)

Regional problems

Regional disparities are large and are an important feature of the general social cohesion challenge. In particular, there is a significant difference in living standards. Another challenge is to create the conditions necessary to take advantage of the competitiveness of the regions and to integrate them into the international market. Such required conditions include: communications and transport, water infrastructure, training of human capital, and overcoming the deficits of social needs.

General objectives of regional policy

The National Development Plan (PND) embodies the basic premise for the comprehensive development of the country and is based on the Constitution. The PND clarifies the national objectives, strategies, and priorities that shall govern the actions of the federal government. The PND 2000-06 identified regional development as one of four core criteria for national development. The PND 2007-12, established in 2007, aspires to develop an integral strategy for regional development. The rationale for promoting such a strategy is to address existing regional disparities across the country and to allow lagging regions to benefit from international integration and structural changes in Mexico. The plan also depicts the need for role-sharing across levels of government as well as vertical and horizontal co-ordination. Finally, it highlights the importance of innovation for increasing living standards in the regions. Objective 13 of the plan is "to overcome the regional disparities using each region's competitive advantages, in co-ordination and collaboration with political, economic and social actors within regions, among regions and at a national level".

Legal/institutional frameworks of regional policy

The **National Development Plan (PND) 2007-12** envisions the following strategies: the promotion of co-ordination (vertical and horizontal) mechanisms between levels of government, while increasing responsibilities and competencies at the sub-national level; institutional capacity building at the state and municipal level; enhancing the competitiveness of all regions, especially emphasising it in lagging regions, SMEs and sectors with a potentially high regional impact; combating financial difficulties in regions; consideration of the spatial dimension and specificities of regions in the design of public policies; and ensuring the existence (and the required efficient investments) of necessary infrastructure to increase regional competitiveness. The **Federal Secretariat for Finance and Public Credit (SHCP)** is responsible for co-ordinating the implementation of the plan and following regional planning mechanisms with the states and municipalities by means of a range of co-ordination agreements between the central and regional level.

The **State Planning and Development Committee (*Comité de Planeación para el Desarrollo del Estado* – COPLADE)**, chaired by the state governor, prepares the state level plan, which includes a proposal for investments at the state and municipal levels, and supervises co-ordination across levels of government. At the municipal level, the **Municipal Planning and Development Committee (the COPLADEMUN)** is responsible for formulating a municipal development plan that includes more specific expenditure proposals. On the basis of these municipal plans, the state government

concludes **municipal development agreements** (*Convenio de Desarrollo Municipal* – CUDEM) with each municipality, which set out the transfer of resources and define shared responsibilities for project implementation and financing in the case of joint activities.

The **Law of Planning** provides a general framework for defining regions. The law states that "regional programmes will address regions that are considered strategic and given priority, based on the national objectives defined in the plan (PND)." Article 7 of the **General Law for Human Settlements** gives the SEDESOL the authority to project and co-ordinate the planning of regional development in co-operation with states and municipalities.

While the National Development Plan defines regional development as a vehicle to achieve national competitiveness, in practice regional development policy does not exist per se in Mexico. There are no new clear national directives or policies to address regional development issues. Additionally, regional vocations, specificities, sectors or competitive advantages have not yet been defined at the national level. It is not clear who is responsible for regional development in Mexico or which competences should be considered integral for regional policy. Traditional politico-administrative systems tend to be organised along sectoral lines. Many place-based policies are designed and implemented by the Ministry of Social Development (SEDESOL), with a heavy emphasis on the relationship between poverty reduction and place-based policies, and less emphasis on building competitive regions. Legally, municipalities have no legislative function and can only make regulations within the framework of state and federal laws.

The **Law on Sustainable Rural Development (LSRD)**, established in 2001, put forward a multi-sector and multi-tier framework for rural policy with a participatory, bottom-up approach for the design and implementation of projects. Rural actions are grouped together under the **Special Concerted Rural Development Programme (PEC)**, a four-year strategic document that includes objectives, strategies and programmes, and adds coherence to rural strategies implemented in multiple ministries. As a result of the PEC launched in 2002, ministerial budgets for rural policies are grouped together into an official rural budget. The law prescribes an **Inter-Ministerial Commission for Sustainable Rural Development (CIDRS)** to promote the inter-sectoral collaboration of related ministries at the national level, as well as **councils for sustainable rural development** at the national, state, district, and municipality level to promote the vertical and horizontal co-ordination of stakeholders. The LSRD envisages the implementation of inter-ministerial commissions at the state level as well. The **Ministry of Agriculture (SAGARPA)** plays the lead role in implementing the LSRD and has heavily emphasised decentralisation for the implementation of rural policies.

Main implementation tools

The **Regional Trust Fund (*fideicomisos para el desarrollo regional*)** was established in four of the five meso-regions so that states could voluntarily engage in joint agreements for research and projects. The presidency of the fund rotates between the constituent states. Agreements among states have resulted in joint efforts for identifying common projects to promote regional development and for planning in the field of transport, other infrastructures, health care, education and economic development. The incentives from the funds remain limited in scale but have served as a vehicle for inter-state and federal government dialogue. The regional trust funds require financial

commitments from participating states which are in turn matched by the federal government. The four *fideicomisos* (*Fidenoreste, Fiderco, Fidecentro and Fidesur*) cover 28 of the 32 states.

The main objective of the **Regional Development Programme (*Programa de impulso al desarrollo regional*)**, established in 2009, is to promote co-ordination among federal and state governments to stimulate regional development. This programme has four specific actions: *i)* to bring federal resources to the Regional Trust Fund in order to promote regional projects for economic and social development identified by the states; *ii)* to establish planning, management or co-ordination schemes in order to promote conciliation among several states; *iii)* to promote regional studies, programmes or plans; and *iv)* to supply territorial information in order to facilitate regional planning and evaluation.

The **Micro-Regions Programme** (now the Development for Priority Areas Programme [*Programa para el Desarrollo de Zonas Prioritarias*]), established in 2001, aims to provide basic infrastructure to the most marginalised rural regions, and involves a multi-sector, multi-tier strategy. The programme consists of a set of horizontal and vertical contracts to co-ordinate public service delivery for the least developed rural areas. It is led by the Ministry of Social Development (SEDESOL) and includes many ministries. The strategy's main normative instrument is the Principles for Inter-ministerial Co-operation and Co-ordination. Based on a mapping of a marginalisation index, the policy targets 263 micro-regions with 99 000 localities containing a total population of 20 million. The deficit-oriented approach of the programme operates with a system of white flags that recognises when a micro-region has reached an adequate level of basic infrastructure or services. The programme also seeks to induce development through the provision of all basic infrastructure services in micro-poles of development, called strategic community centres (CECs), so that CECs will become hubs in rural areas. The multiple tiers of councils oversee the strategy at federal, state and municipal levels.

The **Legal Human Settlements Programme** (*Programa de Apoyo a los Avecindados en Condiciones de Pobreza Patrimonial para Regularizar Asentamientos Humanos Irregulares* – PASPRAH), established in 2008, has as its main objective to legalise land-plots in patrimonial poverty areas in order to provide better conditions to people living in those areas and to improve conditions for cities.

Budget structure

There is no specific fund for regional development policy nor a unified presentation of regional development spending, except for rural policy fields. Co-financing is often used for initiatives such as the Micro-Regions Programme, and in meso-regions.

Despite being a federal country, the federal government collects the lion's share of taxes and is responsible for the bulk of expenditures. In municipalities, tax rates have to be approved by the state legislature and municipal accounts are audited by the state controller who then reports to the legislature, but they are heavily dependent on (indirect) federal and (direct) state transfers. There is a fiscal gap at the sub-national level due to the centralised nature of the fiscal system. The process of decentralisation of the last 20 years was accompanied by the creation in 1980 of the **National System of Fiscal Co-ordination (NSFC)**, in which states and municipalities gave up their right to levy the main taxes in their jurisdictions in exchange for participating in a revenue-sharing system.

The transparency of the NSFC was substantially improved with the 1998 reform of the Fiscal Co-ordination Law which merged multiple spending streams into a single budget item (***Ramo* 33**) consisting of earmarked grants for purposes such as education, infrastructure and health care. Within *Ramo* 33, the Social Infrastructure Fund (FAIS) and the Fund for the Strengthening Municipalities (FAFM) are destined to municipalities. The FAIS aims at improving social infrastructure to address infrastructure gaps across municipalities and allocation is based on a formula that takes socio-economic variables and historical allocation into account. States are free to decide on the formula for municipal allocation of FAIS and FAFM resources. Each state passes framework legislation for transferring, auditing, and supervising the funds to municipalities. The ***Ramo* 28** is a bundle of unconditional transfers to states. Within the *Ramo* 28, the General Participation Fund is transferred to the municipalities.

Governance structures

At least seven ministries have an important impact on regional development. A cross-sectoral gatekeeper responsible for overall regional development at the national level is still lacking. Under the prior administration, responsibility for regional development was placed in the Office of Public Policy. Currently of particular importance are the **Ministry of Social Development (SEDESOL)** and the **Ministry of Agriculture and Rural Development (SAGARPA)**. The SEDESOL, through the Vice-Minister of Urban Development and Territory Organisations, is responsible for three major areas of territorial policies: urban development, territorial organisation and regional development. The SEDESOL has emphasised the relationship between poverty reduction and place-based policies and has consolidated "social development agreements" (*Convenio de Desarrollo Social* – CDS) which were designed to increase the role of municipal and state actors in defining priorities and target areas. Additional policies for rural places are under the responsibility of the SAGARPA.

Five **meso-regions**, which were created in 2002 by the federal government to improve co-ordination between states and the sectoral ministries of the federal government (called *secretarias*), grouped several states for mainly infrastructure planning and overall economic development. Nowadays four of the five meso-regions utilise the Regional Trust Fund though the meso-regions do not have a legal basis.[1]

At a programmatic level, initiatives such as meso-regions and micro-regions have helped to clarify multi-level and horizontal governance structures. For example, the **Micro-Regions Programme** involves the commitment of multiple ministries, based on the Principles for Inter-Ministerial Co-operation and Co-ordination. At the federal level, co-ordination is enforced through the Inter-Sectoral Committee for Micro-Regions with the participation of ministers and is chaired by the Chief Executive (President). At sub-national level, the COPLADE and the COPLADEMUN explained above co-ordinate specific programmes. At the state level, co-ordination is achieved by the Sub-Committee for the Attention of Regions of High Priority (SARP), mainly known as the COPLADE. The COPLADE is a wide-ranging state development council chaired by the state's Governor and drafts and negotiates the Unique Programme of Regional Sustainable Development to constitute the general investment framework for each micro-region. At the local level, co-ordination takes place in each Strategic Community Centre (CEC) through periodical meetings of the Council of Regional Sustainable Development, known as the COPLADEMUN. In cases where the micro-region boundaries exceed the

municipal administrative ones, the Micro-Regional Committee is formed by bringing together each municipality's COPLADMUN.

Decentralisation agreements (*convenios*) are annual, *ad hoc* agreements negotiated and signed between federal ministries/agencies and states and municipalities that transfer all or partial responsibility for the completion of federal tasks to a lower level of government. The *convenios* are accompanied by a transfer of financial resources for the tasks involved. The *convenios* are somewhat unstable, because the rules for signing them are vague and there is no legal obligation to engage in these agreements.

Municipalities have the right to enter into **inter-municipal associations** since 1999. About 25% of municipal governments have formalised agreements with neighbouring municipalities for co-ordination and collaboration in the supply of public services such as water and sewage, public security and public transport. However, the use of inter-municipal associations to co-fund basic infrastructure is limited by the annual nature of programme funding, short-planning periods associated with the three-year municipal election cycle, a lack of co-operative culture and institutional capacity. At the state level, an advanced example is seen in the **Valle de Mexico**. The Metropolitan Commission was created in 1995 through agreements between the federal government, the State of Mexico and the Federal District governments. Though the Commission is simply a discussion panel, it contributes to a more systematic approach of the metropolitan area. The presidency created a metropolitan trust fund for the Valle de Mexico. The state government is in charge of selecting the projects.

Performance monitoring: Congress mandated an annual external assessment of every public programme beginning in 2000, resulting in approximately 150 to 200 evaluations per year. In 2002, the Minister of Finance and Comptroller General established minimum standards for evaluations presented to Congress in areas such as coverage, targeting of specific objectives, cost-benefit analysis, and the perception of users. In 2001, the SEDESOL created the Under Secretariat for Planning and Social Evaluation to implement the evaluation of social programmes. In 2004, Congress passed the Social Development Law which institutionalised the evaluation process in SEDESOL and established a national Evaluation Council which came into force at the end of 2005. At the sub-national level, there is very limited capacity to conduct evaluations.

Note

1. Proposed reforms to the planning law introduced in 2005 sought to reinforce the legal basis and governance structures of meso-regions. These proposals included the development of regional development agencies corresponding to the meso-regions and the possibility to establish metropolitan regions across state lines with corresponding development agencies. However, the proposed reforms have not been passed.

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Netherlands

Table 2.20. **Netherlands**

Country structure	• Unitary, three levels of government (national, 12 provinces [*provincies*], 443 municipalities [*gemeenten*])
Problem recognition	• Reduced growth performance
Objectives	• Stimulate economic growth in all regions
Legal/institutional framework[1]	• Peaks in the Delta (2004) • Spatial Strategy Plan (2006)
Spatial orientation	• Generally all regions but some focus on the lagging areas (north) • More focus on urban areas
Urban policy framework	• National Urban Policy based on block grant and five-year contracts (2005-09)
Rural policy framework[2]	• Agenda for the Living Countryside (2004) based on block grant and seven-year contracts (2007-13) • National Spatial Strategy (2004) • National Rural Development Plan
Major policy tools	• Peaks in the Delta programmes • *Besluit Subsidies Regionale Investeringsprojecten* (BSRI)
Policy co-ordination at central level	• Spatial Economic Policy Directorate of the Ministry of Economic Affairs • Regional Programme Commission • Regional Minister (the Randstad)
Multi-level governance between national and sub-national levels	• Regional Programme Commission • Regional Peaks Team
Policy co-ordination at regional level (among sectors)	• Regional Programme Commission • Regional Peaks Team
Policy co-ordination at regional level (among municipalities)	• City region based on joint Arrangement Act plus (WGR plus-regions) • Municipality merger
Evaluation and monitoring	• Regulation on policy implementation and evaluation
Future directions (currently under discussion)	• Decentralisation

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The perception of regional disparity continues to be debated. The fundamental interdepartmental review (IBO) of regional policy in 2004 argued that the disparities between the northern provinces and the rest of the country are small and that more emphasis should be placed on stimulating economic development throughout the country. This has resulted in declining focus and attention on lagging regions and an increasing emphasis on the reduced growth performance of the Dutch economy and regional obstacles which limit national growth potential.

General objectives of regional policy

In light of the limited regional disparities across the country, regional policy can only be justified if it focuses on promoting regional strengths of national importance. A new goal for spatial economic policy is that "the government aims to stimulate economic growth in all regions by exploiting region-specific opportunities of national importance" (2004 *Peaks in the Delta*). The aim is to align national spatial economic choices with the national economic return to the government.

Legal/institutional frameworks of regional policy

Central government's policy is aimed at enabling each region to provide the same level of public goods and services. This takes place via general and specific grants that are allocated to both provincial and (principally) municipal governments. Central standards and limited local fiscal autonomy ensure that regional differences remain small.

The ***Peaks in the Delta*** White Paper was published in 2004, and since then a strong programme-based and competitiveness-oriented approach to spatially oriented development has been followed. Following a 2004-06 development phase, the new government fully implemented this approach at the beginning of 2007 (through 2010) in five out of six regions, with a transitional programme (*Koers Noord*) adopted in the north. It acknowledged the reduced growth performance of the Dutch economy and its structural problems and stressed the need for remedial action to restore international competitiveness. Such action was seen to require not only broader macroeconomic measures to improve the business climate but also spatially targeted initiatives to remove regional obstacles which limit national growth potential. Formally all areas are covered by the Peaks in the Delta Programme, but in practice some areas are not considered to be of strategic importance for national competitiveness. The policy has shifted from the traditional problem regions in the north towards more selective regional policy interventions across the country. This leads to a low ranking of project proposals in the north.

The Peaks in the Delta Programme supports regional policy co-ordination in several respects. The general focus shifted from the instrument-based spatial policy making (regional investment aid, industrial estates, big city policy, tourism, regional programming and Structural Funds) to geographically co-ordinated programmes which target clusters and competitiveness in line with national priorities with enhanced budgetary flexibility. In this context, considerable weight is attached to the provision of economic infrastructure aligned closely with the National Spatial Strategy Plan which

stresses the importance of infrastructure improvements to enhance accessibility to prime urban centres and growth points. All six **regionally based Peaks programmes**, focusing on regional strengths, have regional innovation components. It is especially important in the south-east, where the programme concentrates on the innovation potential of the region, but is also highlighted in the east as well as in the north and south wings of the Randstad[1]. The stress on regional competitiveness brought an urban orientation to the Peaks programmes. National level funds for regions are provided as block grants.

Every level of government has its own role in spatial planning policy, but the central government plays an important role by providing a structural vision on land use. The **Spatial Strategy Plan** describes the national government's vision for land use over the coming years, the basic quality criteria for spatial policy and the main decisions on land allocations. The current plan, approved in 2006, establishes the strategic framework for land-use development until 2020. Decentralisation is part of this vision, using as a motto: "decentralise wherever possible; centralise wherever necessary". Six urban networks have been developed, including the north and south wings of the Randstad. The provincial plans indicate where cities and villages can expand and where land for agricultural, recreation and nature-based purposes must be located. The municipal land-use plans are much more detailed and must be revised every ten years. Lower level plans must conform to the upper level plans. The multi-year spatial plans have impacted on the Peaks approach, underlining the importance of effective multi-year transport planning well connected to spatial and strategic planning.

There is a **national urban policy framework**, focusing on the 32 largest cities in the Netherlands. National urban policy is based on a block grant and five-year contracts (2005-09). The 2007 Cabinet put more focus on neighbourhood revitalisation and a programme has been set up for 40 problematic neighbourhoods. Additionally, the new competitiveness focus of the 2007 government placed priorities in a programme to increase the competitiveness of the main urban area (the Randstad). The programme was not continued after 2009, but has been replaced by separate (thematic) programmes between some ministries and the cities. The Ministry of Economic Affairs has, for instance, signed a Covenant with the cities for 2010-11, called the ***Strategische Economische Samenwerkingsagenda***. This programme has a budget of EUR 400 000: 50% from the ministry and the remaining 50% from the cities. The money can be used for purposes such as research and congresses.

The **Randstad Urgency Programme**, promoting accessibility, economic dynamism, quality of life and sustainability, was set up to find partnerships in order to achieve results. A new way of creating the requisite political commitment has been to propose two responsible partners for each project. One central government minister or state secretary and one regional politician are responsible for the progress of the project. A Minister for Randstad has been appointed who will hold the project partners accountable for progress on their projects.

As for rural policy, the **Agenda for Living Countryside**, published in 2004, details the national policy targets and budgets for the countryside. Rural policies have been decentralised to provinces, which are now allowed to design area-based development plans. Since January 2007, national funding of rural development (by means of a broad investment budget for the countryside) is based on seven-year target agreements with the regional authorities.

Main implementation tools

A wide range of policies and funding sources support economic development in the regions. Next to the Peaks in the Delta Programmes, these include: broader infrastructure support (the Economic Structure Enhancement Fund [FES] for the restructuring of a limited number of industrial estates of national importance and extra infrastructure support, Strong Regions Programme for 2007-11 with an extra EUR 125 million), policies for industrial sites, tourism, urban policy, Structural Funds, regional development companies and the National Innovation Policy, which has a strong regional impact.

The main national regional aid scheme, investment aid premium (***Besluit Subsidies Regionale Investeringsprojecten* – BSRI)**, will continue from 2007-13, in light of concerns about cross-border competition for mobile investment. The BSRI has operated in two forms: a decentralised version for small investment projects in the north and a centralised scheme for larger investment projects throughout the designated aid areas. The maximum award for large projects is 15% gross in parts of the north and 10% gross in the remaining designated areas. The budget for the BSRI has decreased considerably in the past decade.

Budget structure

The regional programmes in the Peaks in the Delta try to develop synergies or tackle challenges by bringing people together, using the relatively limited funds as a lever for further change. The budget for the period 2007-10 is EUR 271 million. Region-specific funding with respect to industrial estates, tourism, regional development agencies, Strong Regions, Structural Fund programmes and the BSRI for the period 2007-10 amounts to slightly over EUR 600 million. Support for regional programmes including European Regional Development Fund (ERDF) co-finance has grown markedly. In 2007-08, the budget commitment for regional programmes was almost EUR 80 million, with additional ERDF co-financing of over EUR 40 million. This is compared with expected programme-based funding of around EUR 70 million (combined programme and co-finance) at the time of the *Peaks in the Delta* White Paper.

The Peaks in the Delta argued that the north had reached a level of performance to allow it to be treated on par with the other regions. The Peaks programmes focus on regional strengths, often with an innovation orientation and/or urban focus. The Peaks programmes aim to shift funding from the north to all regions, with allocation dependent on the percentage of regionally exporting jobs in each region.

The original plan to switch funding from the north to all regions has been delayed by transitional provisions in respect to the north and extra ERDF co-financing. The political influence of the northern provinces and their historic access to policy funding have ensured the allocation of transitional support under the Peaks budget until 2010 and the award of a transitional northern allocation under the 2007-13 Structural Funds. As a result, the impact of the new policy approach will not be felt in the north until after 2010 when transitional provisions will expire[2].

Whereas the intention in the north is to bring together EU and Peaks funding in a one-stop approach to implementation, Peaks and EU funds will be administered separately elsewhere. The north, comprising 10.5% of the population, has been allocated 27% of the 2007-10 Peaks budget, falling to around 9% thereafter. In a similar vein, the north will

receive 27.5% of the ERDF programme budget in 2007-10, but just 11.6% for 2011-13. Overall, the north will receive just over 24% of total ERDF and associated co-funding.

Impacts of EU regional policy

For 2007-13 the Netherlands has been allocated almost EUR 2 billion in total. The National Strategic Reference Framework set six priority areas (innovation and entrepreneurship, regional attractiveness, socio-economic viability of cities, labour supply, inclusive labour market and human capital), earmarking 80% of the total Structural Funds to support the Lisbon Strategy for growth and jobs. Regional operational programmes must devote at least 50% of resources to innovation. The new aid map covers just 7.5% of the population, half the previous quota, with own aid maxima, shifting the focus even more than before on North and South Limburg. Designated areas within these regions are those in vulnerable border locations facing competitive pressures from neighbouring countries or which have made use of the investment aid premium (BSRI) in the past.

Governance structures

Policy co-ordination is a significant component of the Peaks in the Delta approach. In response to the *Peaks in the Delta* White Paper, the **Spatial Economic Policy Directorate of the Ministry of Economic Affairs** was reorganised along regional lines based on joint central-regional programme teams, rather than sectoral lines. At the same time, the five regional offices of the ministry were brought into the core of the ministry's structure and integrated within the new programme teams. In addition, through discussions at the regional level, a national vision has been formed of regional economic development potential, providing a framework to co-ordinate policy implementation in the regions. Regional programmes under Peaks in the Delta were compiled by recently established **regional programme commissions** which bring together leading regional representatives of the private sector, the knowledge institutions and the public sector.[3] The involvement of **regional Peaks teams** as programme secretariats and implementers at the regional level also enhances co-ordination, as does the active presence on each Programme Commission of a senior Ministry of Economic Affairs official. The Peaks programme brought about the effectiveness of the regional Peaks teams in generating projects as reflected in continuing over-subscription of programme tenders and in streamlining project administration.

Specific regional examples of co-ordination relate to joint application forms and co-financing arrangements. The requirement under Peaks in the Delta that 50% of co-financing be provided by sub-national authorities (provinces, municipalities) guarantees strong co-ordination and regional commitment to aided projects. Central grants remain an important factor, although all funding is now regionally distributed since regional choices meet national priorities. The government wants to reduce the layers involved in any given policy, distinguishing between the level that formulates policy and that which implements the task. Efforts are also being made to break down the barriers between funding sources, notably with respect to Peaks funding and the Structural Funds. The innovation agency AgentschapNL, an agency of the Ministry of Economic Affairs, has taken over the implementation support of the selected Peaks projects. Four regional development agencies provide venture capital to SMEs and assist with innovation and development within companies.

At the sub-national level, the six regions mentioned above are not a new layer of government but rather an area for spatial economic planning. These regions span administrative boundaries (12 provinces) that retain their existing functions. The 12 provinces are mainly responsible for land-use planning and physical infrastructure such as planning, building and operating regional roads. Several provinces have a regional development agency that supports economic development efforts and receives some co-financing from the Ministry of Economic Affairs. Municipalities actually have a greater set of responsibilities than the provinces. The Minister of Interior appoints and dismisses Queen's Commissioners at provincial level and mayors of municipalities. The Queen's Commissioner advises the mayor and may exercise powers of substitution. Provincial councils have supervisory powers with respect to the establishment of inter-municipal bodies.

A formalised structure of municipal co-operation called "city-regions" has existed since 1995. The city-regions are based on a so-called joint Arrangements Act plus (**WGR plus-regions**). It is the province that officially determines the territory of the city-region and the province can compel co-operation when the municipalities involved in the proposal refuse to co-operate. The city-regions consist of a large city with the surrounding municipalities that form part of the same daily urban system. City-regions have several areas of responsibility in the fields of transport, housing, environment and the regional economy. Particularly important is transport. The budgets of city-regions are considerable, although not comparable to the size of the budgets of large cities or of provincial budgets. Municipality mergers have also gradually progressed and the number of municipalities dropped from 646 in 1993 to 483 in 2004, mainly mergers in non-urban and very slightly urban areas.

Recent developments: There are ongoing discussions about the post 2010 policy, focusing on the increased Peaks support to innovation policy especially with respect to project generation and funding, and on the degree of decentralisation in terms of Peaks implementation. The new government in general favours decentralisation to the provinces and municipalities, in the political agreement of 2008, providing more generic grants for municipalities, including budget transfers and expanding local taxation. This does not specifically include the Peaks in the Delta programmes. Discussions about the role of different levels of government and the division of responsibilities are under way. The "rescaling" can be part of the efforts to develop a more flexible or fine-grained delivery system that can respond to any mismatches between administrative boundaries and functional economic areas, which are observed in cities and other urban territories. However, its implication for national-regional development spending is not yet clear.

Performance monitoring: Evaluation has traditionally been an integral part of the policy cycle. Different components of spatial economic policy are reviewed towards the end of each phase of policy. In 2002, a Regulation on Policy Implementation and Evaluation was developed to ensure that government spending was evaluated efficiently, based on information of satisfactory quality and following a uniform approach. An internal *Handbook on Policy Evaluation and Implementation* was developed to facilitate this.

Notes

1. Randstad consists of the four largest Dutch cities (Amsterdam, Rotterdam, The Hague and Utrecht), and the surrounding areas.

2. The northern provinces argue that they continue to be characterised by relative socio-economic deprivation and that continuous efforts and resources will be necessary to reduce disparities. After 2010, further additional economic development support will become available as compensation for the recent decision to abandon the high speed rail link to Groningen.

3. Proposals by each participant are ranked by the Programme Commission and decided upon by the Secretary of State and Economic Affairs. Each Commission comprises three representatives from the business sector, three from knowledge institutions and three from decentralised public sector bodies, with a civil servant representing the Ministry of Economic Affairs.

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New Zealand

Table 2.21. **New Zealand**

Country structure	• Unitary, two levels of government (national, 14 regions, 73 territorial authorities)
Problem recognition	• Regions are not always able to achieve the necessary strategic, outward focus (without support from central government) because of the difficulties of bringing together a wide range of diverse actors
Objectives	• Improve regional business environment • Encourage cross-region collaboration
Legal/institutional framework	• Regional economic development strategies
Spatial orientation	
Urban policy framework	
Rural policy framework	
Major policy tools	• Regional Strategy Fund (RSF) • Enterprising Partnership Fund (EPF) • TechNZ Business Investment Programme • Infrastructure investment such as Broadband and Cycleway
Policy co-ordination at central level	• Co-ordination of the Ministry of Economic Development (MED)
Multi-level governance between national and sub-national levels	• Regional economic development strategies
Policy co-ordination at regional level (cross-sectoral)	• Regional economic development strategies • Co-ordination of New Zealand Trade and Enterprise (NZTE) • Regional councils/economic development agencies
Policy co-ordination at regional level (geographic)	• 14 regions covering all of New Zealand (through the consolidation of regions from 26 to 14 [2007])
Evaluation and monitoring	
Future directions (currently under discussion)	• Future policies are likely to focus on nationally significant regional projects and strategies, rather than on specific regions

Regional problems

Economic activity and growth are unequally distributed amongst New Zealand regions. However, the inequality between New Zealand regions is not substantial. A significant portion of inter-regional economic variation appears to be explained by labour market and demographic variation. Regions are best placed to take responsibility for their own economic development; however, they are not always able to achieve the necessary strategic, outward focus (without support from central government) because of the difficulties of bringing together a wide range of diverse actors.

General objectives of regional policy

In 2007, New Zealand updated its regional economic development policy. The three key objectives of New Zealand's regional policy framework are: to support the implementation of regional economic development strategies that focus on enterprise and innovation; to support the development, attraction and retention of globally competitive firms; and to encourage cross-regional collaboration (working with other regions) on strategies where there are common interests and to avoid duplicating activities.

Legal/institutional frameworks of regional policy

A key focus of New Zealand's 2007 approach to regional development was to support the development, implementation, monitoring and communication of regional economic development strategies, *i.e.* building capacity to undertake strategic planning for economic development.

Regions are encouraged to develop comprehensive **regional economic development strategies** and implementation plans. Strategies are developed in consultation with key players in the region and articulate and identify key actions, responsibilities and partners. The strategy and implementation plan should reflect all of the factors that affect economic development in a region, including infrastructure, business support, skills/labour market, research, science and technology, land-use/zoning, and innovation and enterprise. In addition, regions are encouraged to address sustainability through the wider regional framework and strategy. Strategies are developed and executed by a regional governance group who acts on behalf of the wider region.

Main implementation tools

The **Regional Strategy Fund (RSF)** of the central government supported strategic development, implementation, and communication and monitoring. The fund closed on 30 June 2010 but was designed to encourage regions to take a medium- to long-term productivity-based approach to their economic development strategic planning, with appropriate regional governance structures. The RSF had up to NZD 750 000 available to each region over a 3-year cycle. Each region's governance group could choose how to allocate the RSF funding across each three-year period. From July 2007 to December 2009, just over NZD 4.8 million had been allocated across 59 projects to the 14 regions. From January 2010 to June 2010 a further NZD 4.6 million was expected to be allocated across another 50 projects.

The **Enterprising Partnership Fund (EPF)** was established for regionally based large-scale projects that are commercially driven, generate substantial national and regional economic benefits, and are aligned with national goals and priorities. The EPF targets projects for which success is significantly influenced by networks and relationships that are facilitated by geographical location. The EPF is a contestable fund, with funding decisions made by Cabinet, which assesses the regional and national economic benefits of the project. The total amount of funding allocated to the EPF each year to date has been around NZD 9 million.

The **New Zealand Cycleway Project** is a NZD 50 million national project to build a network of cycle trails ("Great Rides"). This initiative is aimed at creating jobs in regions where the trails will be built whilst creating a long-term national asset, both for New Zealanders and tourists. It is likely to tap into existing regional and local government community-based initiatives that are already underway.

The **TechNZ** business investment programme is to establish and manage a Foundation for Research, Science and Technology which is designed to support companies and people undertaking research and development projects that result in new products, processes or services. The programme is administered by a network of Foundation for Research, Science and Technology regional advisors located throughout New Zealand who assist companies to successfully develop and commercialise their new products. To date, TechNZ investments of NZD 450 million have helped around 4 500 New Zealand businesses.

The following broadband initiatives seek to significantly improve and extend New Zealand's broadband infrastructure nationally and within regions, enhancing the regional business environment. **Ultra-Fast Broadband Initiative**: The government is planning to invest NZD 1.5 billion to accelerate the roll-out of ultra-fast broadband to 75% of New Zealanders over ten years, concentrating in the first six years on priority broadband users such as businesses, schools and health services, plus green fields developments and certain tranches of residential areas. **Rural Broadband Initiative**: This will focus on upgrading rural backhaul and connecting rural schools to fibre to ensure the remaining 25% of New Zealanders are able to access fast broadband services. Ninety-three per cent of rural schools will be connected to fibre, enabling speeds of at least 100 Mbps, with the remaining 7% to achieve speeds of at least 10 Mbps. Over 80% of rural households will have access to broadband with speeds of at least 5 Mbps, with the remainder to achieve speeds of at least 1 Mbps. Taken together with the Ultra-Fast Broadband Initiative, the Rural Broadband Initiative will see 97% of New Zealand schools connected to fibre and will extend 5 Mbs coverage to 97% of New Zealand households.

Budget structure

From 2007/08, the Regional Strategy Fund budget was up to NZD 750 000 per region over three years (and up to NZD 150 000 for the Chatham Islands). The Enterprising Partnerships Fund budget has been around NZD 9 million per year. Examples of some other aforementioned regionally based initiatives include the New Zealand Cycleway Project (NZD 50 million), the Tech NZ business programme (NZD 450 million to date), and the Ultra-Fast Broadband Imitative (NZD 1.5 billion).

Governance structures

The **Ministry of Economic Development (MED)** co-ordinates and manages policy issues related to regional economic development. The **New Zealand Trade and Enterprise (NZTE)** has nine offices around New Zealand and works closely with local government, economic development agencies and other allies to develop their regional economic base, to identify and address barriers to growth, and to stimulate and develop new business opportunities. The number of regions for the Regional Strategy Fund was consolidated from 26 to 14 in 2007 in order to increase the scale and critical mass required for regional development outcomes. Conceptually, these regional groupings can be thought of as a working partnership of regional stakeholders, each of which retains its own purpose, functions, and governance structure. In some regions, the governance structure may be an existing structure such as the board of an economic development agency while in other regions it may be a newly formed group. The governance groups are charged with developing and executing the regional economic development strategy in their region and are required to be reflective of the region as a whole. They often include representatives from business and industry, regional councils, district/city councils, economic development agencies, chambers of commerce, and indigenous groups.

Economic development agencies (EDAs) play a role in the economic development of regions and local communities. This generally involves building business capability and networks, global connectedness, workforce capability, and identifying strategic infrastructure needs. The EDAs are typically funded through a mix of local government, contract delivery (*e.g.* New Zealand Trade and Enterprise) and, in some cases, the private sector. As well as accessing national programmes themselves, the EDAs assist local businesses to access appropriate grants and programmes.

Recent developments: Central government recognises that the types of innovative and creative processes that expand firms are often initiated through projects that are developed based on regional initiatives. Future policies are likely to focus on nationally significant projects and strategies, rather than on specific regions.

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Norway

Table 2.22. **Norway**

Country structure	• Unitary, three levels of government (national, 19 counties [*fylker*], 430 municipalities [*kommuner*])
Problem recognition	• Sparse population across much of the country • Population decrease in rural/peripheral areas • Accessibility: long distances, difficult topography, and weather exposed transport; lack of proximity to larger labour markets and services in peripheral areas • Mono-sector economic structure in many areas • Tax revenue disparities and cost differences in public service provision across municipalities and counties
Objectives	• Ensure a real, independent choice in where to live • Provide equal living conditions across the country • Develop regional strengths and utilise the potential of all parts of the country • Maintain the main features of the settlement pattern (territorial structure)
Legal/institutional framework[1]	• 2009 White Paper on regional policy (every four years) • White Papers on transport, innovation, agriculture, etc.; action plans on female entrepreneurship; entrepreneurships in education, etc. • Annual budgets and guidelines • Planning and Building Act (1985, recently revised), Local Government Act (1992), and sectoral legislations, rules and regulations • Regional plans and strategies
Spatial orientation	• Mainly rural and peripheral areas (especially North Norway) • Regional balance
Urban policy framework	• 2007 White Paper on the Capital Region (Oslo) • 2003 White Paper on greater cities in Norway (six cities)
Rural policy framework[2]	• 2009 White Paper on regional policy (every four years) • Part of agricultural and transport policy
Major policy tools	• Broad regional policy (*e.g.* accessibility, public service provision) • Priority of rural/peripheral areas in transport, broadband, higher education, agriculture, etc. • Action zone in North Troms and Finnmark (various measures) • Block grant/General Purpose (redistribution) Grant Scheme • Extra grants to small/peripheral municipalities and to North Norway counties, municipalities and Namdalen • State localisation policy • Narrow regional/rural development policy (entrepreneurship, innovation, competence, networks, place of attractiveness, etc.) • Geographically differentiated social security tax (the most important instrument) • Geographically differentiated state regional development grants to counties • State schemes and programmes like Norwegian Centres of Expertise and capacity building at regional and local level (recently launched) • Norwegian Centre for Rural Development (since 2008)

Table 2.22. **Norway** (*continued*)

Policy co-ordination at central level	• Co-ordination of regional and rural policy by the Ministry of Local Government and Regional Development • Cabinet sub-committee on rural and regional policy • Inter-ministerial collaboration, working groups, hearings, etc.
Multi-level governance between national and sub-national levels	• Ministry of Local Government and Regional Development's consultation body with the municipal sector • Government's annual contact conference with the counties • Ministry's participation in meetings with county heads of regional development, of industrial development, etc. • Innovation Norway's (national agency at regional level) participation in regional partnerships • A number of sectoral meeting points between the national and the regional levels, for example on national transport plans, regional research, agriculture, etc.
Policy co-ordination at regional level (cross-sectoral)	• Regional plans and strategies • Regional partnerships
Policy co-ordination at regional level (geographic)	• Regional plans and strategies • Inter-municipal and inter-county co-operative bodies
Evaluation and monitoring	• Regular on-going and *ex post* evaluations of all main measures and bodies • Annual reports from state implementation bodies and counties on inputs, activities and results • KOSTRA information system/database for municipalities and counties
Future directions (currently under discussion)	• Implementation of regional decentralisation reform

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The traditional regional challenge has been the sparse population across much of the country, combined with peripheral areas that experience accessibility problems due to long distances to regional centres and markets. Main challenges in rural areas are: *i*) to ensure jobs and service provision; *ii*) to overcome small labour markets and long distances to work; *iii*) to manage the limited industrial environment and to release growth potential; and *iv*) to make rural and small urban settlements attractive to live in, especially for young people and women, and to make small- and medium-sized towns attractive alternatives to bigger towns and cities. The challenges in urban areas, among them, in the larger cities and especially in the Oslo region, are: income disparities, lack of social integration, traffic congestion, and environmental problems.

The industrial structure of the country is part of the regional challenge. Certain areas are recognised as being overly dependent on primary industries and single enterprises, some of which are facing restructuring challenges. Increasing global competition has put pressure to adopt innovation policies. Tax revenue disparities and cost differences for public service provision across municipalities and counties are also challenging.

General objectives of regional policy

The government's regional and rural policy was presented in a 2009 White Paper. The geographical target areas have always been areas with sparse and declining population and/or low income. During the last decades, increased focus has been put on entrepreneurship and innovation, local areas' attractiveness, urban-rural relations and urban policy, and governance and devolution. However, the current government, as seen in the 2009 White Paper, has attached more importance to the rural elements of regional policy. The policy objectives are: to provide equal living conditions across the country; to utilise all parts of the country and exploit regional potential; and to maintain the main features of the settlement pattern (territorial structure). The ambition is to make people free to settle where they wish.

Legal/institutional frameworks of regional policy

The government's legal framework of regional policy is constituted by a number of agreements, laws and regulations, white papers, budget documents and guidelines. As a member of the European Economic Area (EEA) agreement, Norway has to adopt EU legislation in certain areas. Particularly relevant for regional development is the state aid legislation, even if regional policy is not a part of the EEA agreement.

Main policy objectives, strategies, target groups and instruments are presented in white papers on rural and regional policy in general and specific sectors like transport, R&D and agriculture. The last paper on rural and regional development is ***White Paper No.25 (2008-2009) on Local Growth and Hope for the Future***. National legislation has also been established in a number of areas, including the newly revised Planning and Building Act, the Local Government Act, and sectoral legislation, rules and guidelines. In its annual budget documents, the government presents the following year's measures and the budget.

The counties have their own four-year master plan and annual budgets. County master plans have so far been endorsed by the national government. The new Planning and Building Act will imply a change. From now on, each county shall develop a strategic plan, deciding which plans to produce the next four years and whom to involve in the planning process. These strategic plans will be endorsed by the national government.

Policy instruments consist of both district (rural/peripheral) measures (*e.g.* support for municipalities, regional aid for designated areas and the far north, the social security concession, and a new scheme for young entrepreneurs) and regional growth-oriented policies (including the provision of business infrastructure and the new Norwegian Centre of Expertise programme since 2006). Regarding business support, there has been a continuous focus on improving accessibility to the business infrastructure (*e.g.* incubators, knowledge parks, business gardens mainly promoted by the Industrial Development Corporation of Norway [SIVA]).

Norwegian rural and regional policy has several target areas. Five examples of target areas are: *i*) **social security concession**, which targets labour market regions with less than eight inhabitants per square kilometre, covering 17.7% of the population (2006) and 82% of Norway's land mass; *ii*) the **designated investment aid area** and the aid area for the newly created Small Enterprise Scheme, which have a population coverage of 26.4% (2009) and land mass coverage of 86%. The area is sparsely populated with less than 12.5 inhabitants per square kilometre, including all areas of North Norway as well as sparsely populated areas in the south. The area is also used as a geographical delimitation of general purpose block grants to municipalities in South Norway and to municipalities and counties in North Norway and Namdalen; *iii*) the **Action Zone of North Troms and Finnmark**, established in 1990 to meet the severe challenges in parts of North Norway. The zone has about 91 000 inhabitants (1.9% of the population); *iv*) the reconstruction programme for several places, mostly smaller, mono-industrial communities which have seen and/or will see significant and rapid loss of work places. At present, the international financial and economic crisis has substantially reduced employment in the ship and petroleum yard industry; and *v*) the EU's cross- and trans-border programmes (INTERREG) have their own territorial delimitations.

Main implementation tools

Three new **Centres of Expertise** (ocean products, food-related and cancer) were designated through a competitive process in 2007, adding to the six established in 2006 (subsea technology, system engineering, maritime, light materials, instruments, and micro-systems). The programme aims to strengthen regional industrial and knowledge clusters which include businesses with growth ambitions and international competitiveness potential. The efforts are to regionalise aspects of research and innovation support and to improve the business environment in small and medium-sized cities. The programme has a 10-year time frame with 3.5 year contracts supervised by Innovation Norway, the Industrial Development Corporation of Norway (SIVA) and the Research Council Norway.

Urban policy (Oslo and other big cities): While the city is an important centre for the Norwegian economy, cultural life and knowledge institutions, the rapid growth in the region creates challenges such as pressure on infrastructure and the urban environment as well as the integration of ethnic minorities. The Oslo region has unique possibilities and faces some particular challenges. The other big cities are, on a smaller scale, in a similar

situation. The government supports the regeneration of the urban district of Groruddalen (in Oslo) in order to improve the neighbourhood, living standards, environment and integration. The government has also supported an initiative for innovation in Oslo and other big cities (*Storbyprosjektet*). This initiative also improves the role of cities as engines for regional development.

When it comes to rural industrial development, the largest implementation instrument is the **regionally differentiated social security concession**. With an annual revenue loss of NOK 11 billion, it is by far the single most important measure. The measure targets labour market regions with less than eight inhabitants per square kilometre. In 2006, the ESA (European Free Trade Association Surveillance authority) and Norway agreed that the previous target area would be reduced, though the previously eligible zones are compensated. The tax rates are laid down in the EEA-notified schemes. The Action Zone of North Troms and Finnmark does not have any social security tax due to the scheme while the central parts of Norway are taxed at 14.1%.

North Norway, where low population density and outward migration trends are prevalent, is the part of Norway which receives the most political emphasis and, in budgetary and expenditure terms, it is the main priority. The **Action Zone of North Norway** (North Troms and Finnmark) aims at developing an attractive region in which to live, work and do business. The strategies aim to contribute to value creation through a good business environment and infrastructure, to develop skills and innovation through selective means, and to ensure the provision of public services. The measures comprise a 0% rate in social security tax (unofficially estimated as NOK 1.7 billion in 2007), a reduction of student loans (NOK 0.1 billion), an exemption from tax on household use of electricity (NOK 0.2 billion), reduced personal taxes (NOK 0.3 billion), higher family/children's allowance (NOK 0.1 billion), and benefits to pre-school teachers. The total annual revenue effect of these measures is estimated at NOK 2.8 billion in 2010.

A new **Norwegian Centre for Rural Development** (*Distriktssenteret*) was created in 2008 in order to map, evaluate and disseminate knowledge and best practices of local development initiatives and to inspire and assist municipalities and entrepreneurs to create more attractive communities. The main target areas are remote and sparsely populated areas in Norway.

Impacts of EU regional policy

Norway is not a member of the EU, therefore EU regional policy does not directly apply. However, Norway is influenced by EU regional policy in two ways. The first relates to Norwegian participation in EU regional policy programmes under pillar 3 (cross-border and inter-regional co-operation), where EU rules are applied for Norwegian partners. Secondly, the EU state aid rules represent important framework conditions for the Norwegian rural and regional policies. The regional aid guidelines, guidelines for aid to R&D and innovation as well as the block exemption regulation are all relevant regulations, as is the *de minimis* regulation.

These guidelines define the types of grants allowed (purposes/eligible costs), maximum aid and geographical delimitations. These maxima apply to traditional regional aids: regional development grants, regional risk loans and related advice and development support. Core regional investment aid needs to be refreshed, the regional transport aid to be continued (if funding is provided by interested municipalities). Further, a new aid

scheme was introduced in 2008 for small, recently established enterprises with growth potential (*Nyvekst*), as permitted under the guidelines.

Budget structure

In the Norwegian state budget structure, budgets are presented in the annual national fiscal budget proposal to Parliament (*Stortinget*). They are followed by letters of allocation to national implementation bodies like Innovation Norway, counties and municipalities. Counties and municipalities prepare their own budgets and allocate the national transfer (from the Ministry of Local Development and Regional Development). The ministry allocates money for use by themselves (*e.g.* business support, reconstruction means, INTERREG), Innovation Norway (direct business support) or municipalities. The General Purpose (Redistribution) Grants for public welfare service provision (*e.g.* education, health and roads) are distributed directly from the ministry to counties and municipalities. Additionally, earmarked grants come from sectoral ministries.

The Ministry of Local Government and Regional Development has a rural and regional development budget (NOK 2.7 billion for 2010). The budget is allocated to all parts of the country, but around 83% of the resources go to the designated investment aid areas. The primary uses are investment in: *i*) direct business support (*e.g.* entrepreneurship, innovation, networking, competence); *ii*) infrastructure and education (*e.g.* roads, harbours, broadband, capacity building); and *iii*) making places more attractive. EEA-notified schemes define the maximum business aid allowed.

Approximately 81% of the ministry's regional and industrial development means have been distributed to and through the counties and municipalities since the devolution of the regional economic development budget in 2003. Of this, slightly more than two-fifths go to the three northernmost counties (Finnmark, Troms and Nordland) which together hold just over 10% of the country's population. The measures were introduced in 2008 and include Innovation Norway's risk loans, investment aid, and grants for networking, entrepreneurship, innovation and so on, including a new scheme for small, recently established enterprises with growth potential (NyVekst) which is permitted under the EU guidelines. The priorities of the counties are to benefit not only businesses but also inhabitants. For example, counties prioritise cultural activities, the establishment/development of education and the development of attractive places. Some priorities benefit both businesses and inhabitants, for example, measures for broadband and road infrastructures.

The remaining part of the ministry's budget is to a large extent channelled directly to state implementation bodies, like Innovation Norway, SIVA (the Industrial Development Corporation of Norway) and the Research Council of Norway. Examples of national schemes are: *i)* networking programmes like Norwegian Centres of Expertise, Area, Enterprise Networks (*Bedriftsnettverk*), incubator programmes, business gardens, and the Programme for Regional R&D and Innovation (VRI); and *ii)* entrepreneurship measures such as business start-up grants in incubators and the commercialisation of R&D results (FORNY).

Spending on narrowly defined rural policy is about NOK 2.7 billion in 2010. Broader aspects of rural policy involve a further NOK 13-15 billion funding, in particular, the differentiated social security concession (estimated annual foregone revenue of NOK 11 billion), certain agricultural measures (NOK 1.3 billion), and measures for small municipalities in South Norway (NOK 0.3 million), and a North Norway general purpose

grant (NOK 1.4 billion). Other rural development measures such as transport, education and agriculture are not included here.

Revenue sources of counties and municipalities include income tax, and to a lesser degree, block grants from the central government. The fiscal autonomy of the sub-national level is limited. Though counties and municipalities have taxing power in order to finance the provision of welfare services, it is within specific limits. Municipalities may also tax real estate within certain limits. Local and/or regional provision of public services, such as water, sewage and waste development, should be fully financed through user fees. Both municipalities and counties own shares in electric power plants and power line companies. This ownership creates dividends which are free revenues and spent locally and regionally.

The Ministry of Local Government and Regional Development is also responsible for the **General Purpose Block Grant Scheme** for municipalities and counties. Substantial amounts of revenue are transferred through the equalisation system from large cities to small municipalities, from urban counties to rural counties, and from South Norway to the north. The fiscal equalisation system assures that municipalities and counties are fully compensated for above-average expenditure needs and partially compensated for lower than average fiscal capacity. Municipalities with unfavourable regional circumstances (remoteness or location in the northern periphery) receive additional compensation. The scheme contains three important elements relevant for rural and regional policies: *i*) extra means to small municipalities with less than 3 200 inhabitants and an income tax revenue less than 120% of the national average over three years; *ii*) extra means to (other) municipalities in South Norway that are part of the investment aid map and have an income tax revenue under the same conditions as: *i*); and *iii*) concessions for municipalities and counties in North Norway and Namdalen (North Trøndelag).

Governance structures

The **Ministry of Local Government and Regional Development** is responsible for developing, co-ordinating and overseeing policy related to regional development. In addition, the ministry has authority over some industrial and regional development funds. In 2005, the government established a **Cabinet Sub-committee on Rural and Regional Policy**, the first permanent sub-committee on this theme in order to improve policy co-ordination across ministries. Although an advisory body, this was an important step in a country where sectoral ministries are traditionally powerful. The sub-committee is chaired by the Minister of Local Government and Regional Development and has six other ministers as permanent representatives. The committee shall co-ordinate government measures with substantial regional impact, address challenges, initiate inter-ministerial processes and contribute to setting the political agenda of the government.

The co-ordination system is based on the triangular relationships between national ministries, national agencies for policy implementation (*e.g.* Innovation Norway) and in many respects county-level partnerships. **Innovation Norway** (IN), a state-owned organisation mainly involved in direct business support, is an active and important regional policy player, in particular through its involvement in the development and implementation of regional development plans and in delivering support at the regional level. IN is funded basically by the four ministries: the Ministry of Local Government and Regional Development; the Ministry of Trade and Industry; the Ministry of Agriculture

and Food; and the Ministry of Fisheries and Coastal Affairs. Industrial development funds are also channelled through SIVA and the Research Council of Norway.

Municipalities, being responsible for public service provision (*e.g.* primary health, primary and secondary education, and elderly care), have always had a relatively strong position within the Norwegian system while the role of counties has been weaker. However, in 2004 and 2010, **counties** gained increased responsibility (*e.g.* regional business development, broadband, main roads and regional R&D). In partnership with the municipalities, Innovation Norway and the private business sector, the counties became responsible for the allocation of financial resources. In this context, **regional plans and regional strategies** have become more central to regional policy implementation. The county governor is the central government's regional representative. The county councils and the municipal councils are both directly elected and funded through a combination of income taxes and national grants.

Inter-municipal co-operation is frequent in Norway. In 2006, the Local Government Act of 1992 was amended to widen the range of tasks that can be delegated from municipalities and county councils to inter-municipal co-operative bodies. A municipality can also delegate certain tasks and responsibilities for public service provision to another municipality (host municipality). Such co-operation between municipalities seldom leads to voluntary amalgamations. To promote amalgamations, the government assures that during the ten years following a merger, the amount of block grants allocated to the merged municipality will not be reduced. Thereafter, the extra income is phased out during a period of five years. The government also contributes to impact assessments, public hearings and information collection by municipalities in order to investigate the amalgamation possibilities.

Recent developments: The administrative reform process (*Ansvarsreformen*) which began in 2003 continues. Some activities are in the process of being decentralised to the counties, relating for instance to transport and communications, land use, R&D and regional development. In this context, since 1 January 2010, the counties hold part-ownership of Innovation Norway in partnership with the Ministry of Trade and Industry. The aim is to strengthen the strategic role of the county councils and to develop a more co-ordinated policy between the national and regional levels of government.

Performance monitoring: There is a strong evaluation regime within the ministries and national implementation organisations. The results are reported in annual budgets and white papers on regional policy. The evaluation regime is continually and gradually amended and improved, but it is difficult to detect the impacts and outcomes, for example, of business development policies on employment, revenue and settlement. A limited impact measuring system is now being introduced regarding indirect business support. The ***KOSTRA database*** is a national electronic information system on sub-national government activities, containing finance, cost, productivity and service coverage information. Data is reported directly from counties and municipalities and combined with demographic and other statistics.

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Poland

Table 2.23. **Poland**

Country structure	• Unitary, four levels of government (national, 16 regions [*voivodships*], 314 counties [*powiats*], 2 479 municipalities [*gminas*])
Problem recognition	• Under-utilised endogenous potential of the regions and lack of efficient mechanisms of growth diffusion from cities (metropolitan areas) to rural areas • Increasing intra-regional (urban-rural) and inter-regional (west-east) disparities
Objectives	• Create conditions to increase the competitiveness of all regions, so as to better promote regional cohesion and balance (NSRF)
Legal/institutional framework[1]	• National Development Strategy (NDS) (2007-15) • Law on the Principles of Development Policy (2006) • Law on the *Voivodship* self-government • National Regional Development Strategy (NSRD) (currently being elaborated) • National Spatial Strategy (currently being elaborated)
Spatial orientation	• Drivers of growth (*e.g.* urban areas) • Lagging regions (*e.g.* eastern Poland, rural areas)
Urban policy framework	• None (currently being discussed)
Rural policy framework[2]	• Rural Development Strategy 2007-13
Major policy tools	• Regional investment aid • Special economic zone • Regional contracts • Diverse supports of special institutions at central and regional level agencies • National sectoral programmes
Policy co-ordination at central level	• Co-ordination of the Ministry for Regional Development (MRR)
Multi-level governance between national and sub-national levels	• Regional contracts
Policy co-ordination at regional level (cross-sectoral)	• Regional self-governments (*voivodships*)
Policy co-ordination at regional level (geographic)	• Regional self-governments (*voivodships*)
Evaluation and monitoring	• Establishment of evaluation plans and evaluation units, mainly stimulated by the EU policy
Future directions (currently under discussion)	• National Regional Development Strategy (NSRD), including an enhanced role of place-based regional policy, further decentralisation, territorial contracts, financial integration of national resources and sectoral programme co-ordination

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member state has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

Before the current global crisis, the Polish economy experienced significant levels of overall growth. Poland's average annual growth rate was greater than 4% between 1995 and 2005, and growth of GDP exceeded 6% in 2006 and 2007, ranking Poland second among OECD member countries. Poland has better resisted the impact of the global crisis than other eastern European countries. Growth slowed in the second half of 2008 but was still positive in early 2009.

However, the growth of GDP is not distributed evenly throughout the country. Poland has one of the greatest territorial disparities among OECD member countries in terms of GDP per capita at TL3 level.[1] Moreover, the disparities have increased since 1995, as the growth dynamics have been concentrated in certain locations. Three types of disparities can be observed: *i)* a persistent gap between eastern and western Poland; *ii)* a gap between Warsaw and the rest of the country; and *iii)* increasing intra-regional disparities, among the highest in the OECD, in particular in the regions of Warsaw (Mazowieckie), Poznan (Wielkopolskie) and Cracow (Malopolskie), which are largely due to increasing disparities between large urban areas and rural ones.

A fundamental issue for regional policy, therefore, is the link between the different metropolitan cores and their relationship with smaller towns and less developed areas in their regional hinterlands. The restructuring of Poland's large and uncompetitive heavy industrial centres remains a significant regional policy challenge. Like many OECD member countries, Poland must seek to achieve an appropriate balance between support for poles of growth (*voivodship* cities) to allow them to compete with other European metropolitan core cities and make use of their potential in stimulating the development of other areas on the one hand and the development of lagging regions, particularly its eastern peripheral regions, which are among the poorest in the European Union on the other hand. The important issue for regional policy is also finding ways of providing rural areas with better access to public services.

General objectives of regional policy

Regional development is high on the political agenda and has evolved significantly in recent years, in part because of the sheer scale of EU Cohesion Policy support and growing territorial disparities. Before 1999 Poland's territorial policy consisted of specific efforts to support lagging regions, in particular industrial regions in the process of restructuring. A more dynamic regional policy emerged in the 2000s from two closely linked institutional processes: first, the creation of the 16 Polish regions (*voivodship*) in 1999 (with responsibilities, among others, for economic strategy, water management, health and higher education); second, accession to the European Union in 2004 and support from EU funds (both pre-accession aid and Structural Funds). Regional development has become, partly under the influence of the EU, a key objective on Poland's political agenda. Territorial policy has shifted from a dominant focus on territories in a state of crisis to the development of all regions. While traditional concerns with struggling regional economies remain, the strategic focus under EU programmes is on enhancing competitiveness and productivity in all regions.

The National Development Strategy for 2007-15 combines equity and efficiency-related objectives:

> To create conditions for a growth of competitiveness of all regions in such a way as to promote economic, social and territorial cohesion and aiming at levelling the development opportunities of *voivodships* (regions).

The strategy also prepared more resources for regional intervention. The National Strategic Reference Framework (NSRF) 2007-13 prescribes the objective as the

> …creation of those conditions for growth of competitiveness and of knowledge-based economy and entrepreneurship, assuring an increase in employment and in level of social, economic and territorial cohesion.

NSRF's strategic objectives are to provide conditions for the growth of the Polish economy's competitiveness through knowledge and entrepreneurship, to increase employment and to enhance social, economic and spatial cohesion. Poland's priorities for 2007-13, as set out in the NSRF, are to promote growth and job creation in order to reduce the gap between its GDP per capita and that of the EU-27. The driving role for the growth of cities and metropolitan areas is acknowledged, and one of the key objectives is to enhance the spillover effect from poles of growth to lagging regions.

Legal/institutional frameworks of regional policy

As EU Cohesion Policy funding is of major importance in Poland, regional development measures have been strongly aligned with EU Cohesion Policy programmes. The Ministry of Regional Development was created in 2005 to co-ordinate policies and funding. The key document that sets guidelines for Poland's social and economic development is the **National Development Strategy (NDS) 2007-15** (adopted by the Council of Ministers in 2006), which is supposed to be the common umbrella for all sectoral policies. The NDS 2007-15 and the **Law on the Principles of Development Policy of 2006** have produced a more coherent, strategic and legal system for regional policy, though sectoral and regional co-ordination challenges remain. The NDS foresees total funding of EUR 108 billion, with EUR 85.6 billion of EU funding and EUR 22.4 billion from national resources and private funds. Within this broad framework, regional development strategy has been developed in the National Strategic Reference Framework (NSRF) for the years 2007-13, which establishes the priorities for the use of EU funds.

The NSRF, NDS and the National Spatial Development Policy Scheme (no legal status) have all highlighted the development role of metropolitan areas and growth centres, though a metropolitan policy has not yet been developed. In addition, a separate **Rural Development Strategy** has been developed by the Ministry of Agriculture, and the policy approach has slightly evolved towards a broader understanding of rural development.

Recent activities of the Ministry for Regional Development have led to the **National Regional Development Strategy (NSRD) 2010-20**. Sixteen Polish regions were consulted during the second half of 2009. The NSRD was to be presented to the Council of Ministers for adoption by resolution in July 2010. It identifies the problems mentioned above and indicates the main objectives and challenges of regional policy in Poland, combining European and national dimensions, taking into consideration the endogenous growth potential and development factors which are crucial for Polish regions. The

NSRD introduces new regional policy instruments such as territorial contracts. Most of the measures concentrate on so-called "Areas of Strategic Intervention", defining the thematic and geographic interventions of the NSRD.

The strategy defines regional policy objectives, including those for urban and rural areas, and indicates their relation to other public policies with great territorial impacts. It combines a place-based approach with regard to different types of urban areas, and in particular, to various rural areas, and foresees suitable intervention devoted to enhancing the competitiveness of territories with endogenous potential (by supporting metropolitan functions of *voivodship* cities, integrating their functional areas, and creating conditions for spill over effects of growth by stimulating the development of small and medium-sized towns and rural areas), and building the territorial cohesion of lagging areas (mainly by improving access to public goods and services).

Moreover, it provides support for enhancing the management of development processes at national and regional levels, including co-ordination instruments, improved institutional capacity at all government levels, and other mechanisms improving the effectiveness of regional policy and other policies of great territorial influence ("process of territorialisation" of sectoral policies assumed to link their objectives to those defined in the NSRD and obtain additional national funds for the implementation of territorial contracts). Currently, detailed implementation guidelines for the NSRD are under preparation. Not only does this concern the elaboration of new instruments and mechanisms for regional policy, but it may also include changes in the legal framework such as the Law on the Principles of Development Policy and the Law on *Voidvodship* Self-government.

Spatial Planning: under the **2003 Spatial Planning Act**, regions (*voivodship*) have responsibility for planning systems, because they prepare the regional spatial development plans. However, these plans are not binding on municipality's plans and tend to remain quite general. Comprehensive spatial planning that encompasses physical and socio-economic developments on a regional scale is being elaborated. It is planned to be presented to the Council of Ministers for adoption by resolution at the end of 2010. According to the current draft, the main goal of spatial management policy is the effective use of the whole national space as well as its territorially diversified endogenous development potential which contributes to achieving development goals at the national level: growth, employment and cohesion over the long-term.

Six operational goals characterise the scope and hierarchy of the basic values taken into consideration while assessing the country's spatial management. These operational goals should not be considered separately because they all refer to the national spatial structure, are inter-related and mutually complementary. The goals are: to increase the competitiveness of major Polish cities and regions in the European spatial context, while preserving the Polish polycentric settlement system; to improve internal cohesion by promoting functional integration and growth diffusion and using the innate potential of all Polish territories; to improve the country's territorial accessibility, in different spatial dimensions, by developing transport and telecommunication infrastructures; to create and form spatial structures which support and maintain a high quality natural environment and landscape; to increase the resistance of national spatial structure to different threads and limit risk resulting from natural extreme phenomena and catastrophes, energy shortages, and national security; and to assure spatial order by implementing rules allowing rational spatial use, preventing its degradation, organising relationships in

functional areas of towns, and controlling city-sprawl and settlement/housing fragmentation in rural areas.

Impacts of EU regional policy

For 2007-13 Poland has been allocated approximately EUR 67 billion, which makes it the largest beneficiary of European Cohesion Policy for this programming period. In particular, Poland will administer some of the largest sectoral operational programmes in the history of the EU21. The following programmes have been developed: five national programmes (75% of the funds) with a strong territorial dimension; and 16 regional programmes (25% of the funds). The largest national sectoral programme is "Infrastructure and Environment" (EUR 28 billion), followed by "Human Capital" (EUR 10 billion) and "Innovative Economy" (EUR 8 billion). Sixteen regional operation programmes are formulated and implemented by 16 regions.[2] Within regional operation programmes, transport infrastructure is due to receive more than a quarter of the available budget, with R&D, innovation and enterprise support accounting for a further quarter, reflecting the stress on endogenous growth factors and the Lisbon agenda.

A supra-regional programme targeting the development of the five eastern regions has been developed with the EU funds for 2007-13, co-financed with national funds. An additional budget of EUR 2.2 billion has been allocated to Poland by the European Commission for this purpose. This is the first supra-regional programme of this type in the European Union and is managed by the Ministry of Regional Development. It has six priorities (modernisation of the economy, information society, transport infrastructure, support to cities, tourism and technical assistance), and aims to integrate various sectoral policies in a territorial perspective. The macro-regional programme not only provides additional funding but also aims at achieving co-operation and connections among the five regions to address under-used potential, develop transport networks within the area, and elaborate a common strategy for cross-border co-operation beyond the administrative borders of *voivodships.*

Main implementation tools

The entire country remains eligible for **regional investment aid**, with ceilings of 50% gross in the most lagging regions and 40% gross in most of the rest of the country, and 30% gross in the Warsaw region by 2011-13. Aid to business has decreased significantly since EU accession. Most such aid had a strong territorial concentration, notably in Slaskie, Dolnoslaskie and Pomorskie. In recent years, regional aid has grown in importance in part related to the operation of **special economic zones (SEZs)** offering tax concessions. SEZs were created in 1994 in areas with structural unemployment and undergoing industrial restructuring, mainly located in the vicinity of major cities. SEZs are established through regulations of the Council of Ministers upon request of the Minister of the Economy in agreement with the Minister for Regional Development. There are 14 SEZs, the largest in Slaskie, Dolnoslaskie and Podkarpackie. There is a move away from tax concessions (within the SEZs) towards grants because grants are viewed as more transparent and the EU has asked Poland to end special tax exemptions in 2017.

The regional dimension of broader business support is growing in significance and tends to flow to growth centres in spite of the lack of an explicit spatial dimension. Most measures aim to strengthen business support institutions (technology transfer centres, science and technology parks, industrial parks, technology incubators, R&D institutions, loan and guarantee funds, seed capital). The **Polish Agency for Enterprise Development (PAED)**, established in 2004, supports SMEs, innovation and cluster development through the funds obtained from the state budget and the EU. **Regional development agencies** also work at the *voivodship* level, to stimulate regional business and the development of SMEs through subsidies or loans, advisory services and training courses.

Regional contracts negotiated and agreed between the central state (the Ministry for Regional Development) and regional governments are an instrument for co-ordinating the state's regional policy in the regions since 2001. Based, in part, on the French state-region contracts, they are signed legal agreements between the government and regional self-government authorities under which regions receive a set budget for investment in a range of policy fields, among others, in the area of road infrastructure, health-care, educational facilities, sports infrastructure, and tourist and leisure or cultural facilities. Regional contracts represented more than EUR 165 million in terms of total investment in 2005, including 786 projects. Regional contracts are co-financed by the central budget and local government budgets, although their importance has been questioned by the fact that local government budgets are predominantly financed by central government subsidies. The contract stipulates the method for implementing investments proposed by the regions and financed from the state and local budget. The head of region (marshal) decides the allocation of funds, while the *voivod* (sub-national representation of the Prime Minister) controls the spending of the funds. The contract's term is limited to one year.

Hitherto experiences with regional contracts showed, however, gaps in the co-ordination system regarding particular actors of regional policy at the national and regional levels. Contracts were not ensuring the cohesion of government and self-government actions with measures of other entities, including other ministries and public or non-public partners. Their implementation was also limited by means available within EU Cohesion Policy while national measures were very scarce. Old contracts were mostly implementing measures which were not spatially oriented and did not respect the regional conditions. To ensure the synergy of regional policy instruments and to strengthen the geographic and thematic concentration, a new form of regional contract will be introduced (**territorial contracts**). These new contracts will be a tool for increasing the institutional capacity of entities involved in the implementation of regional policy. Measures will be negotiated, according to a partnership principle, by all main institutional actors.

National sectoral programmes for infrastructure, environment and business support allocate funding throughout the country, and tend to favour more developed areas where population and businesses are concentrated. Looking to the future, more weight is being given to sub-national co-operation mechanisms, which may see more focus on metropolitan areas and growth poles (within special national programmes). The development of marginal rural areas is also an important part of policy (though limited to designated "lagging areas"), not least given the special programme for the development of eastern Poland. Preliminary assumptions of the programmes for 2013-20 are described in the project of the NSRD.

Budget structure

The most important regional policy funding mechanisms relate to EU Cohesion Policy. For the current financial period (2007-13), Poland has been allocated EUR 67.3 billion from the European Regional Development Fund/Cohesion Fund. This represents 20% of overall Cohesion Funds, making Poland the leading recipient of EU funding for 2007-13 and indeed the all-time leading recipient of support under Cohesion Policy. All regions in Poland are eligible under the Convergence Objective.[3] Poland will have to manage an average of EUR 9.33 billion annually through 2015 (the funding increases gradually and peaks in 2013). These amounts add to the EUR 16.5 billion that Poland will receive under the European Agricultural Rural Development Fund. In all, Poland is to receive EUR 85.6 billion from EU resources in the current period of 2007-13. EU aid to Poland will reach almost 4% of GDP in this period. Although EU funds represent the bulk of the budget for regional policy, they are complemented by important sources of national funding, as projects have to be co-financed. EU funds can be used to finance up to 75 or 85% of a project, depending on the fund. Today, Poland has one of the largest budgets for regional development among OECD member countries.

Since Poland will probably still be the biggest beneficiary of two basic EU policies (Cohesion Policy and Rural Policy) after 2013, we can assume that the main financial source of the NSRD will be the EU budget. The difference from the current financial perspective will be that spending will be subordinated to policy objectives determined at the national level and that mechanisms of proper co-ordination of various EU policies will be ensured. The state and self-governments will be involved with a match-funding of EU co-funded priorities and projects as well as national programmes and projects promoted in the framework of territorial contracts. Poland now receives more private financing, *e.g.* increased role of loan funds, credit guarantees and financial services by commercial banks. The emphasis will be put on the dissemination of mechanisms and forms of public-private partnerships.

Domestic (regional contract) support is allocated according to an equity-related formula under which 80% of funds are distributed in line with the population, 10% to sub-regions with low GDP per capita and 10% to sub-regions suffering high unemployment. The same allocation system has been used for the EU regional operational programmes (ROP) for 2007-13, thus favouring weaker regions. While ROP funding has more than doubled compared to the funding in the 2004-06 period in terms of average levels of support per year, ROP allocations represent just 25% of overall funding. Taking national operational programmes into account, the regional breakdown of overall funding shows that the majority of it is spent in productive areas, especially larger towns and cities in more developed regions.

Though the fiscal autonomy of the sub-national level has increased since the reform of local finances in 2004, it remains very limited at the county and regional levels. Nearly half of sub-national government revenues (47%) come from grants (mostly from general grants, 32% of which are earmarked), while tax revenue represents around 38% of sub-national revenue. Currently there are several independent formulas, more or less formalised, which distribute the funds of particular ministries and government institutions between *voivodships*. These formulas are not mutually co-ordinated, neither during their preparation, nor during their implementation. The NSRD increases the related public entities, whose financial resources might be used to implement regional policy measures, directly as part of territorial contracts, or indirectly as an element of sectoral programmes.

Governance structures

Co-ordination has become a necessity as the scale of EU funding, the complexity of the programming framework and the sophistication of interventions have all increased in the current programming period. The main regional policy co-ordination mechanisms regard the administration of the NSRF and EU-funded programmes. They include national and regional monitoring and steering committees, and conferences and negotiations between programme partners from national and regional levels. The 2007-15 National Development Strategy and the introduction of the Law on the Principles of Development Policy at the end of 2006 have confirmed parallel processes of regionalisation and central-level co-ordination.

The **Ministry for Regional Development (MRR)** has a key co-ordinating role in the overall administration of regional policy. The MRR aims to co-ordinate regional, national and EU development objectives in the regional operation programmes (ROPs) by issuing several framework guidelines on the share of funding that can be allocated to different ROP activities. It is the Managing Authority for sectoral operational programmes and the multi-regional programme for the Development of the Eastern Regions and also the central government representative in co-ordinating ROPs with the regional self-governments. The **Ministry of Agriculture** manages the rural development programme. It is planned in the Polish NSRF that the Prime Minister will appoint an inter-ministerial committee chaired by the minister in charge of regional development to ensure the effective co-ordination and implementation of the NSRF based regional policy.

The **16 regions** (*voivodships*) play a more active part in steering development than before, as managing authorities for the new regional operation programmes. The *voivodship* has an elected regional assembly and is responsible for regional economic development, higher education, health care and labour market policy. However, the *voivodship* relies mostly on grants distributed by the central government and the financial resources for completing those tasks are limited. Sub-national input into the regional policy implementation process is being strengthened, potentially involving a stronger role of regions in resource allocation, project generation and selection, in spite of tensions concerning the mismatch between the expanding competences of regional authorities and inadequate access to funding, including their own resources. The regions have a dual governmental structure, consisting of the regional self-government headed by a marshal, and a *voivod*, a representative of the Prime Minister who oversees the work of all three levels of self-government. The county (*powiats*) has relatively limited competencies and no specific authority in terms of spatial planning. Currently, within works on the new regional development strategy, a big emphasis is put on strengthening self-governments' position, introducing financial decentralisation and a multi-level governance model.

The municipality (*gmina*) is the lowest level of territorial division in Poland. As of March 2010, Poland had 2 479 *gminas*. There are three types of *gminas* in Poland: urban (consisting of one city or town), mixed (consisting of a town and its surrounding villages and countryside), and rural (only consisting of villages and countryside). The legislative and controlling body of each *gmina* is the elected municipal council. The directly elected mayor [4] of the municipality is responsible for performing the executive tasks. Sixty-four large urban municipalities including Warsaw have special status with powers normally allocated to counties. In Poland there is no tradition of voluntary co-operation between local governments, though the 1997 Constitution authorised sub-national governments to join forces to carry out their missions.

Recent developments: A package of legislative proposals launched by the government in May 2008 included provisions to shift responsibility for a broader range of policy issues from the state to the *voivodship*. A consultation process is underway on national regional policy, including a debate on the relationship between the state and the *voivodship* and on the financial basis of the latter. The efficiency of counties (*powiats*) is also currently under debate, especially regarding counties located close to municipalities having county status.

Performance monitoring: Poland has made significant progress since 2004 in developing performance monitoring for both sectoral and regional programmes, stimulated and necessitated by EU requirements. As the largest recipient of EU Structural and Cohesion Funds for 2007-13, Poland is one of the most advanced EU member countries in organising and planning evaluation for 2007-13, *e.g.* in terms of establishing evaluation units and drafting evaluation plans. All evaluations under the NSRF and the operational programmes are conducted by independent external evaluators.

Notes

1. The OECD's current territorial database (covering 31 member countries excluding Slovenia) encompasses yearly time-series for around 40 indicators of demography, economic accounts, labour market, social and innovation themes at two sub-national administrative levels: that of large regions (TL2 = some 300 such regions) and small regions (TL3 = approximately 1 800 regions).
2. Regional operation programmes (ROPs) are largely based on the pre-existing regional development strategies, *i.e.* broad-ranging documents in which each region sets its own long-term vision for development up through 2015 or 2020. Though the Ministry of Regional Development issued strategic guidelines for the ROPs, regions were granted extensive flexibility and autonomy to prepare regional programmes.
3. However, Mazowieckie has now surpassed the threshold of 75% of the average EU GDP per capita and does not meet general standards to be eligible under the Convergence Objective.
4. Mayor is called *wójt* in rural *gminas*, *burmistrz* in most urban and mixed *gminas*, and *prezydent* in towns with more than 100 000 inhabitants.

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Portugal

Table 2.24. **Portugal**

Country structure	• Unitary, three levels of government (national, [autonomous regions], 308 municipalities [*municípios*], 4 259 parishes [*freguesias*])
Problem recognition	• Regional disparities in terms of competitiveness • Declining low-density rural areas
Objectives	• Competitive, integrated and open economy • Equitable territory
Legal/institutional framework[1]	• National Spatial Policy Programme (NSPP, 2007) • Regional spatial plans (PROT)
Spatial orientation	
Urban policy framework	• POLIS XXI
Rural policy framework[2]	
Major policy tools	• New incentive schemes for R&D, innovation and SMEs • Project of National Interest (PIN) • National Council for Innovation and its Technological Plan • Competitiveness and Technology Hub initiative • New local finance law (General Municipal Fund, Municipal Cohesion Fund, and Municipal Social Fund)
Policy co-ordination at central level	• Co-ordination of the Ministry for Economy, Innovation and Development and the Ministry for Environment and Spatial Planning • Strategic advisory committees
Multi-level governance between national and sub-national levels	• Regional spatial plans (PROT)
Policy co-ordination at regional level (cross-sectoral)	• Regional co-operation and development commissions (CCDRs) • Inter-sectoral Co-ordination Council • Strategic advisory committees
Policy co-ordination at regional level (geographic)	• Inter-municipal associations
Evaluation and monitoring	• NSRF Observatory • Regional Dynamics Observation Centres at regional level
Future directions (currently under discussion)	

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

In Portugal, the urban/rural divide commonly found in OECD member countries has translated in a gap between dynamic and densely populated urban areas (mainly along the coast) and declining low-density rural areas (concentrated in the interior of the country). Regional disparities are less visible in terms of GDP per capita than in terms of unemployment rates, educational attainment, and R&D investment. Accordingly, strong variations of competitiveness across regions are increasingly regarded as a challenge. It is acknowledged that public policies need to focus not only on improving national competitiveness with Lisbon as a motor of development, but also on increasing regional competitiveness more generally.

General objectives of regional policy

For a long time, public measures known under the label of regional policy have consisted mostly in the implementation of EU Cohesion Policy, which co-finances the main regional aid and a range of other sectoral initiatives with spatial development objectives and/or impacts. As many other EU countries, Portugal gave priority to supporting poorer regions through massive transfers to finance infrastructure and basic public services, with a view to reduce regional income disparities.

Yet today, low-density rural regions still lag behind larger urban regions and their declining productivity dims national growth prospects. The relatively low level of Portuguese prosperity in relation to the EU average brought policy makers' attention to improving national competitiveness in a European context. At the same time, the shift of EU regional policy towards the Lisbon Strategy has called for significant adjustments in Portugal's practice of regional policy. Portugal has been challenged to reposition its regional policy on a new mix of cohesion and competitiveness objectives.

As a result, policy aims to increase regional competitiveness in order to maximise national growth and reduce disparities across regions. There is now a far stronger focus on competitiveness at the national and sub-national levels, alongside a more effective governance model to ensure effective policy delivery. The National Spatial Policy Programme clarifies the vision for Portugal 2025 as "a well-planned and sustainable territory; a competitive, integrated and open economy; an equitable territory; a creative society with a sense of citizenship" and six strategic objectives to "preserve and value biodiversity, landscapes and cultural heritage; reinforce territorial competitiveness and international integration; promote the polycentric development of territories; ensure territorial equity in the provision of infrastructure and collective services; expand networks and information and communication (ICT) infrastructure; and reinforce spatial planning quality and efficiency".

Legal/institutional frameworks of regional policy

The recent focus of regional policy was on the formulation, approval and launch of the 2007-13 National Strategic Reference Framework (NSRF) and operational programmes (OPs). The NSRF and OPs were approved and the programmes were launched in 2007. The NSRF undertook a broad process of regional diagnosis and designed policies so that the identified regional assets could serve the competitiveness objective underlined in the renewed Lisbon Agenda.

The Portuguese NSRF proposes five national strategic priorities: qualification (promoting levels of educational attainment and thus stimulating knowledge, R&D, and national development); sustainable growth (enhancing the competitiveness of territories and businesses); social cohesion (increasing employment and strengthening employability and entrepreneurship); urban and territorial development (pursuing environmental gains, promoting spatial planning and enhancing the connectivity of the territory in line with the goal of reducing regional disparities); and governance efficiency (modernising public institutions). Five structural principles of investment will apply: operational concentration from 13 sectoral programmes to three thematic programmes; selectivity in investment and development actions; economic viability and the financial sustainability of operations; territorial cohesion; and strategic management and monitoring. The five national strategic priorities will be mainly implemented through three Thematic Operational Programmes (Territorial Enhancement, Human Potential, and Factors of Competitiveness) and nine regional operational programmes, one for each NUTS 2[1] region in mainland Portugal and two for each autonomous region.

At the same time, after decades of limited use of spatial planning, Portugal adopted a wide-ranging instrument called the **National Spatial Policy Programme** (NSPP, or PNPOT in Portuguese). The NSPP was designed as a tool to "know national territory, forecast its future, and act for spatial planning and territorial development". The NSPP is composed of a report identifying 24 territorial and spatial planning challenges and puts forward a vision for Portugal 2025, and an action programme proposing six strategic objectives, in turn developed into 36 specific objectives and 197 measures. After the process of public participation, the Parliament voted the law approving the NSPP in 2007.

At the same time, **regional spatial plans** (*Plano Regional de Ordenamento do Território* or PROT in Portuguese) are prepared in order to cover all NUTS 2 regions. They are elaborated by the commissions for regional co-ordination and development (CCDRs), *i.e.* the deconcentrated bodies of the Ministry for Environment and Spatial Planning in the five mainland NUTS 2 regions, and by the regional governments in the two autonomous regions of Azores and Madeira. The CCDRs organise plenary and sectoral sessions to discuss the PROTs, and municipalities are invited to participate in the planning process via commissions. The PROTs have a binding power over municipal development plans (PDMs) elaborated by municipalities.

A series of recently launched plans have attempted to better take regional specificities into account. For example, a new type of urban policy called **POLIS XXI** aims at supporting different types of urban dynamics at different scales (urban neighbourhoods, networks of cities, city-regions). Rural policy makes a distinction between rural zones, defavourised zones, and zones protected by the EU Natura 2000 network. Particular attention was paid to the needs of low-density regions via recent programmes such as the Programme for the Economic Valorisation of Endogenous Resources (**PROVERE**) and the **Multi-Purpose and Proximity Services Network**. This reflects the government's concern to preserve landscapes and biodiversity, which are distinctive assets in Portugal, and to promote sustainable development.

Impacts of EU regional policy

Portugal has been one of the most significant recipients of EU Cohesion Policy. After absorbing more than EUR 50 billion of EU Structural Funds between 1989 and 2006, the overall Cohesion Policy budget for 2007-13 (EUR 21.5 billion) is broadly comparable to that of 2000-06, though there were some marked variations across regions. The new period has seen important changes to the Structural Funds map. Although overall funding has fallen only slightly, there have been major cut-backs in Lisbon and the Algarve, which will receive just 20% and 25% respectively of their 2000-06 allocations as well as in Madeira (cut in half). They are all regions outside Convergence Objectives.

Changes in aid area designation have been introduced, with the adoption of a new regional aid map and schemes for 2007-13. The Lisbon area, holding just under one-quarter of the national population, is no longer eligible for regional aid under the regional aid guidelines following a reduction of the aid area population quota. Award ceilings have been reduced, generally by 10% across regions. Still lower ceilings will apply in many of the areas in 2011-13.

In terms of funding shifts, there has been a significant strengthening of financial allocations to upgrade the qualification of human resources (37% of overall resources) and to enhance competitiveness and sustainable growth (65% of the resources available under the thematic OPs). In the programming period of 2007-13, the main priorities are training and education (EUR 5.3 billion), research and development (EUR 5 billion) and environment and climate change (EUR 5 billion). There has also been a marked increase in the regionalisation of funding. The mainland regional operational programmes now account for 55% of total ERDF funding, an increase of 9% compared to 2000-06.

Main implementation tools

Previous aids (SIME) were replaced by **three new incentive schemes** for 2007-13, designed for R&D, innovation, and SME modernisation and internationalisation. The aids responded to the regional aid guidelines in terms of area coverage (with the exclusion of parts of Lisbon for eligibility for investment support) and award rates (with significant reductions in regional aid maxima). The schemes aim to exploit synergies through the promotion of competitiveness and technology poles, clusters, regional development poles and urban renewal. They reflect a number of strategic goals: to reduce the priority and financial weight attached to aid as opposed to other forms of support such as financial engineering and collective actions; to lower award rates; to increase the focus and targeting of aid; to increase the priority attached to SMEs, while also recognising the importance of innovation-oriented investment; and to improve aid administration, increasing the speed and quality of decisions, with the incentive schemes partly managed at the regional level for the first time. The scheme will include the creation of a new project selection committee to absorb input from both national and regional operational programme managers. Projects of a value of EUR 1.7 billion (EUR 1.3 billion for innovation, EUR 234 million for SMEs and EUR 234 million for R&D), were approved through the end of 2009.

The Business Development Agency (AICEP) oversees **projects of national interest (PIN)**. As of the end of 2006, there were 63 PIN projects in Portugal, more than half of which focused on tourism and Alentejo and Lisbon. The Committee for Evaluation and Follow-Up is composed of top-level officials from many organisations and meets every two weeks to monitor the environmental sustainability of the projects.

Portugal has started to address the previous lack of a consistent and systemic innovation policy at the national level. Growing awareness of the country's overall weak performance in terms of innovation has prompted the government to try to close the scientific and technological gap compared with other European countries. A **National Council for Innovation** is under consideration. An earlier flagship initiative called the **Technological Plan** (*Plano Tecnológico*) also put forward a wide-ranging strategy to modernise the Portuguese economy and was generally welcomed as a promising package of long-overdue measures for competitiveness. An inter-ministerial commission and an advisory council (including private, academic and public sectors) were established to follow up on the implementation of the Technological Plan.

There is now more support targeted at the development of human resources and more funding for the new operational programme for the economy (the new PRIME). This takes a more concentrated and selective approach to economic development, focusing particularly on knowledge, technology and especially, innovation. Recent regional policy projects such as the "**Competitiveness and Technology Hubs" initiative** (inspired from the French model of *pôles de compétitivité* and partly from the Finnish Centres of Expertise) and the "urban networks of competitiveness and innovation" (under the POLIS XXI urban policy) have shown a promising approach for fostering innovation.

Besides aid schemes, three further policy instruments are supported under the OP Factors of Competitiveness and the Regional OP for 2007-13: financial engineering measures (risk capital, interest rebates, bank guarantees and the recently created Fund for Innovation Funding Support [FINOVA]); support for collective business development which aims to improve competitiveness through promoting clusters, competitiveness and technology poles and other networks; and public actions to support projects sponsored by public bodies (including technology parks, SME networks support and measures to modernise the public administration).

Budget structure

Local governments in Portugal have little fiscal autonomy and rely heavily on grants from the central government. The current fiscal system has a highly redistributive nature, especially because of the two block grants used to aid the most "needy" municipalities (the **General Municipal Fund [FGM]** and the **Municipal Cohesion Fund [FCM]**). The reform of the Local Finance Act in 2007 introduced various measures such as expanding municipal competencies (notably via the creation of a **Municipal Social Fund (FSM)**, an earmarked grant to finance specific expenditures in education, health and social policy) and increasing municipal revenues.

Governance structures

The **Ministry for Economy, Innovation and Development** and the **Ministry for Environment and Spatial Planning** are mainly in charge of regional policy. The ministries encompass policies with territorial impacts and co-ordinate many multi-level partnerships for investment with other line ministries, municipalities and firms.

Arrangements for the administration of the Structural Funds are an important driver in regional policy delivery frameworks. The government developed a new delivery model for 2007-13. The aim is to achieve a more integrated governance system, focusing on increased horizontal and vertical co-ordination. The new, rationalised and thematic operational programmes have demanded a far higher degree of inter-ministerial co-ordination with a lead ministry taking a co-ordinating role for each programme. Moreover, a new layer of governance for the programmes has been created through the setting up of a co-ordination body (**strategic advisory committees)** with a political supervisory role at both the national level for the NSRF and programme level for each operational programme. The aims are to facilitate the input of the different ministries into strategic decisions, to increase the political accountability of decision making, and to ensure a clear separation of functions between strategic design and delivery, and between management and political supervision. At the same time, decision-making power in the regional operational programmes is concentrated in a single managing body.

At the sub-national level, there is no elected regional government in mainland Portugal while the two autonomous regions of Azores and Madeira elect their own regional government and regional assembly. According to the Constitution, regions can be established in mainland Portugal if approved by referendum but the initiatives were defeated in a referendum of 1998. The five mainland "regions" (TL2[2]/NUTS 2) were initially set up for planning purposes and more coherent implementation of policies and became the geography for EU Structural Funds management.

The five regions are currently administered by the central government via the **commissions for regional co-ordination and development (CCDR)**. The CCDR are the deconcentrated arms of the Ministry for Environment and Spatial Planning, which were created in 1979 for planning. Currently, the CCDRs will cover: spatial planning; the promotion of strategic and integrated regional development planning; monitoring the design and implementation of deconcentrated policies; and providing an opinion on the central government's public investment expenditure programme (PIDDAC) in the region. Under EU Cohesion Policy, each of the regions was asked to draft its own Regional Strategy 2015 under the direction of the CCDR. Of particular note is the creation of a **co-ordination council** within each CCDR in order to improve collaboration among the CCDR, municipalities and the regional directorates of different ministries operating in the regions. Within the framework of the **Programme of Public Administration Reform (PRACE)** since 2006, other ministries are reorganising their deconcentrated units according to the same geographic scale as the CCDR.

The integrated governance system also includes certain elements of decentralisation: an increase in the distribution of resources to mainland regional operational programmes relative to national programmes when compared to the 2000-06 period; a more decentralised approach to the competitiveness agenda through new incentive schemes that are partly managed at the regional level; and the promotion of decentralised implementation of integrated actions through global grants to groupings of municipalities

organised at the NUTS 3 level. The partnership model associated with the implementation of Structural Funds programmes has often been influential at the regional level.

The Portuguese government has launched a powerful movement to group municipalities at the existing TL3 (NUTS 3) statistical level. The new law (2008) aims to harmonise local public investment at the NUTS 3 level by offering different kinds of incentives (*e.g.* possibility to collect local property taxes and to receive EU "global grants" as managing authorities of certain programmes). In practice, all municipalities are now engaged in inter-municipal associations at the NUTS 3 level.

Performance monitoring: Instruments to improve efficiency, including evaluation, are built into the delivery of Cohesion Policy in line with regulatory requirements. Increased emphasis is on strategic monitoring under the Structural Funds system and under the responsibility of **NSRF Observatory**. At the regional level **regional dynamics observation centres** are created to perform similar functions. An indicator system is being developed at the national and regional levels. The **Composite Index of Regional Development** was published in May 2009. Its aim is to provide a tool for monitoring regional disparities on an annual basis. It is made up of 65 indicators divided into three components which reflect broader sustainable development concerns: competitiveness, cohesion and environmental quality.

Notes

1. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

2. The OECD's current territorial database (covering 31 member countries excluding Slovenia) encompasses yearly time-series for around 40 indicators of demography, economic accounts, labour market, social and innovation themes at two sub-national administrative levels: that of large regions (TL2 = some 300 such regions) and small regions (TL3 = approximately 1 800 regions).

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Slovak Republic

Table 2.25. **Slovak Republic**

Country structure	• Unitary, three levels of government (national, eight self-governing regions [*vyssich uzemnych celkov*], 2 920 municipalities [*obec*])
Problem recognition	• West-east regional disparities, polarised economic growth • Social inclusion
Objectives	Sustainable, place-based and balanced regional and sectoral development policy with three core objectives: • efficiency, based on innovation and competitiveness index • equity, higher living standards, based on cohesion index • environmental quality and high value of the Slovak countryside
Legal/institutional framework[1]	• Regional Development Support Act (2008) • National Strategy for Regional Development 2010-2020/30 (2010), currently in the legislative process
Spatial orientation	• KURS - Slovakia Spatial Development Perspectives, Policy for Territorial Development of Slovakia (2001), Amendment No.1 with SEA, currently under public debate • Development poles and development axis • Growth poles
Urban policy framework	• KURS includes policies for urban development of the Slovak Republic
Rural policy framework[2]	• KURS includes policies for rural development of the Slovak Republic
Major policy tools	
Policy co-ordination at central level	• Co-ordination role of the Ministry of Construction and Regional Development • Government Council for Regional Policy and Supervision on Structural Operations
Multi-level governance between national and sub-national levels	• Regional development agencies • Spatial planning process, plans at all three levels of government from national to municipal level (duty according to the law to respect the guiding part of KURS in regional plans and to respect regional plans in city plans)
Policy co-ordination at regional level (cross-sectoral)	• Regional self-governance (eight higher territorial units)
Policy co-ordination at regional level (geographic)	• Duty regional planning (according to the law to respect the guiding part of KURS in regional plans and to respect regional plans in city plans)
Evaluation and monitoring	• Spatial planning authorities must evaluate spatial plans every four years
Future directions (currently under discussion)	• Decentralisation reform, strategic planning, more focus on sustainability, green growth, place-based regional development policy, equity, efficiency, and a more healthy environment of the countryside

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

The location of Bratislava, the capital of the Slovak Republic, in the extreme west of the country (just 50 kilometres from Vienna, the capital of Austria) contributes to polarised economic growth and the west-east divide of economic development in the country. There are some concerns regarding the urban-periphery of Bratislava. Southern and eastern parts of the country have a rural character, with below average economic productivity, low investment rates, high unemployment, spatial concentration of marginalised groups, and poor transport and infrastructure. Depopulation trends of the area are persistent. A growing challenge is to ensure the provision of basic public services throughout the territory, especially in rural areas. With increased mobility, settlement structures are becoming more scattered, leading to increased commuting and urban-rural sprawl.

Balancing economic efficiency and equity with better living standards is a primary concern. Since the enlargement of the EU, a new boom area is developing in the triangle of Bratislava-Vienna-Budapest, making cross-border co-operation an important element of spatial planning and regional policy. Problems related to climate change, energy and demography are not so severe and are considered in the context of long-term regional policy, together with enormous potential for green growth.

General objectives of regional policy

Regional development support is aimed at balanced, sustainable economic and social development, and the reduction of inter-regional disparities which were identified in the areas of infrastructure, human resources, industry and services, and agriculture and rural development. Modifications of regional policy after 2006 are linked to the introduction of the National Strategic Reference Framework (NSRF) and operational programmes and reflect the shift in the orientation of EU Cohesion Policy. Recently, more emphasis has been placed on the competitiveness and innovative capacity of regions, endogenous development, the enhancement of economic performance and living conditions, which are reflected in a new Regional Development Support Act and the National Strategy for Regional Development, currently being drafted. The overall objective set out in the NSRF is to "significantly increase the competitiveness and performance of regions, the Slovak economy and employment by 2013, while respecting the principles of sustainable development".

Legal/institutional frameworks of regional policy

The **Regional Development Support Act** was established in 2008 and the **National Strategy for Regional Development** is currently being drafted. The act defines the objectives, instruments, tasks and main beneficiaries of regional development support as well as the key stakeholders and provisions for co-operation. The support aims to address unfavourable social, economic and spatial disparities to secure the sustainable development of regions, to increase the economic performance of regions and their competitiveness, and to increase employment and living conditions in regions. Investment in basic infrastructure remains a key pillar of support and is most commonly addressed at the national level. For instance, road infrastructure development is implemented according to the Programme for the Preparation and Construction of Motorways and

Highways for 2007-10, which identifies priority locations for investment. In addition to addressing regional infrastructure deficits, the development of business services is being encouraged.

The **Slovakia Spatial Development Perspective 2001 (KURS)** was approved by the government in 2001. The KURS is prepared as a tool for national policy on territorial development, arranging the settlement structure, settlement centres and economic agglomerations, as well as the development of main urbanisation axes while co-ordinating principles of spatial development for equal living conditions across the Slovak Republic. The main goals of KURS are spatial integration within the EU; a balanced polycentric settlement structure; transport infrastructure for balanced development and effective international transit; urban-rural relations; the preservation of cultural heritage; and the protection of nature, landscape and environment. The KURS has a binding part that must be implemented in lower planning documents and in planning decisions as well as a voluntary part that is a recommendation for lower planning documents. The binding part was announced as a Government Decision (legislation) in 2002. The KURS will be amended by the Ministry of Construction and Regional Development in 2010.

Regional spatial plans identify the development patterns of each NUTS 3[1] region. They are prepared and approved by regional governments. The regional spatial plans include the binding and voluntary parts of the KURS. The binding part is announced as a regional law.

Main implementation tools

Regional aid continues to be available for economic development in regions with extremely low living standards or high unemployment rates. However, more generally, financial assistance is increasingly concentrated on **growth poles** with a view to enhancing the effectiveness of Cohesion Policy resources and promoting the convergence of target regions and their hinterlands. Most commonly, regional aid takes the form of income tax relief, grants and subsidies in the form of irrecoverable financial contributions and penalty relief.

Impacts of EU regional policy

The Slovak Republic became eligible for Structural Funds when it entered the EU in mid-2004. For the 2007-13 programming period, the Slovak Republic has been allocated EUR 11.7 billion. The main priorities are environment and climate change (EUR 5.5 billion), transport (EUR 3.5 billion) and R&D and innovation (EUR 2.6 billion). A specific regional programme is being implemented in the Bratislava region. Aid area population coverage for 2007-13 decreased from 100% to 88.9%.

Governance structures

Vertical governance is assured through the spatial planning system. The **Ministry of Construction and Regional Development** is the key authority responsible for the implementation and co-ordination of regional development, and the preparation of the KURS as well as Cohesion Policy. The KURS represents the state policy on territorial development in terms of settlement structure and includes guiding principles for spatial

development. Its main task is to co-ordinate the activities of state administration bodies and self-government at regional and local levels.

The **Government Council for Regional Policy and Supervision on Structural Operations** is a consultative body of the government with a co-ordinating function at the central government level. It supervises the performance of ministries and other public bodies in the field of regional development, regional policy, EU Cohesion Policy and other relevant EU and national policies. It aims to ensure co-ordination between Cohesion Policy and national policies.

In 2002, self-governing regions were established. Regional governments are responsible for preparing and approving regional plans as well as for announcing the approved plan as a regional directive. In 2006, the **Association of Chairmen of Self-Governing Regions** (higher territorial units) was formed to co-ordinate development activities in the regions and act jointly in negotiations with national and international institutions. An integrated network of **regional development agencies (RDAs)** is in place to stimulate endogenous development and co-operation between public and private actors. The RDAs provide a wide range of services such as project management, information points, strategic planning and training. Local governments are responsible for preparing and approving two levels of local plans, *i.e.* a master plan and a zoning plan (part of the city regulation). Local municipalities announce the approved plan as a local directive (law). Municipalities with more than 2 000 inhabitants were required to have a master plan up until 2005.

Regional governments and municipalities are respectively responsible for the elaboration and implementation of economic and social development plans and spatial plans. In the context of the decentralisation trend of public administration, the role and importance of regional and local self-governments is increasing. Some implementation responsibilities have moved from central to regional levels. Sub-national input into the implementation process is being strengthened, potentially involving a stronger role in resource allocation, project generation and selection. Under the Regional Development Support Act, the self-governing NUTS 3 regions also contribute to the development of a National Development Plan and infrastructure operational programmes. However, concerns about administrative capacity and expertise at the sub-national level mean that central implementation structures continue to dominate.

Note

1. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

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Slovenia

Table 2.26. **Slovenia**

Country structure	• Unitary, 2 levels of government (national, 210 municipalities), 12 unelected statistical regions (TL3)[3]
Problem recognition	• Asymmetric impact of globalisation (*e.g.* recent crisis) • Poor economic performance and depopulation of peripheral areas
Objective	• Balanced regional development
Legal/institutional framework[1]	• Act on the Promotion of Balanced Regional Development (first introduced in 1999, revised in 2005, and scheduled to be revised by end-2010)
Spatial orientation	• Covers all regions • Gives priority to: – the least developed regions – municipalities with specific problems – border areas – areas inhabited by Hungarian and Italian minorities and the Roma community
Urban policy framework	• No single urban policy document • Regulations and national guidelines for local level within spatial planning and development
Rural policy framework[2]	• Rural Development Plan 2007-13
Major policy tools	• Three operational programmes: – Operational Programme for Strengthening Regional Development Potentials (OP SRDP) – Operational Programme for Human Resource Development (OP HRD) – Operational Programme for the Development of Environmental and Transport Infrastructure (OP DETI) • Regional development programmes
Policy co-ordination at central level	• Government Office for Local Self-Government and Regional Policy: managing authority for Cohesion Policy • Government Office for Growth and European Affairs: co-ordination among central ministries; in charge of long-term development plans at the national level • Ministry of Finance: fiscal relations with sub-national governments
Multi-level governance between national and sub-national levels	• Associations of municipalities
Policy co-ordination at regional level (cross-sectoral)	• Regional development programmes
Policy co-ordination at regional level (geographic)	• Regional development agencies • Council of Regions (mayors) • Regional development councils
Evaluation and monitoring	• Monitoring of regional programmes in the context of EU Cohesion Policy
Future directions (currently under discussion)	• Give a contractual dimension to regional development programmes • Regionalisation/decentralisation reforms (creation of regions [*pokrajine*] as a tier of government)

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single RDP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

3. The OECD's current territorial database (covering 31 member countries excluding Slovenia) encompasses yearly time-series for around 40 indicators of demography, economic accounts, labour market, social and innovation themes at two sub-national administrative levels: that of large regions (TL2 = some 300 such regions) and small regions (TL3 = approximately 1 800 regions).

Regional problems

Slovenia has significantly closed the gap with the OECD average level of GDP per capita without creating major imbalances. However, the development of a market economy has highlighted the disparities between Slovenia's 12 statistical regions. The richest region Osrednjeslovenska (Central Slovenia, which encompasses the capital Ljubljana) scores the highest on most indicators. It concentrates about one-third of registered businesses and one-quarter of the working-age population. The poorest region (Pomurje in the north-east) is largely agricultural and has the highest unemployment rate in the country. Regions are relatively small and their economic performance often depends on a small number of companies.

Since independence, resources and decision making have tended to be centralised at the national level. Establishing political and administrative structures of the new state, managing economic transition and accession to the European Union were at the top of the political agenda. At the same time, specific measures were taken to support demographically endangered regions, regions with high unemployment, border regions and other regions hosting a high share of ethnic minorities. In recent years, the government has paid special attention to regions most severely hit by industrial restructuring and the crisis. For example, a specific Government Office was created for Pomurje and a special law introduced positive discrimination measures in this region.

Objectives of regional policy

From 1971 to 1999, regional policy focused on supporting less developed areas and reducing regional disparities. A special Law for the Promotion of Less Developed Regions was adopted in 1971, based on the concept of polycentric development and focused on supporting demographically endangered regions. The 1999 Law on the Promotion of Balanced Regional Development attempted to broaden regional policy to take broader competitiveness factors into account, although measures designed for specific types of areas were maintained. The law sought to overcome the limits of demographic criteria in targeting regional needs and to fulfil the requirements to qualify for EU Structural Funds.

Over time, the stated objective of regional policy has shifted from territorial equity to regional growth and competitiveness. In the 2007-13 period, one of the three operational programmes was specifically devoted to Strengthening Regional Development Potentials (OP SRDP), including a special priority axis for the development of regions. Within this priority axis, regional development programmes cover all 12 regions in Slovenia and funds are distributed according to a development risk index (IRO) calculated by the Government Office of Local Self-Government and Regional Policy (GOSP) and the Statistical Office of the Republic of Slovenia.

Legal/institutional framework of regional policy

Slovenia's Development Strategy (SDS) is based on the principles of sustainable development and the integration of development policies, and includes balanced regional development in its five priority areas. The **National Development Plan 2007-13 (NDP)** translates the SDS into specific programmes and projects, and provides a basis for the

preparation of the National Strategic Reference Framework (NSRF) for the implementation of EU Cohesion Policy during 2007-13. The **Spatial Development Strategy of Slovenia (SDSS)** defines general goals for national spatial development and serves as an umbrella document for the spatial harmonisation of sectoral policies (including human settlement, infrastructure and landscapes). Development projects must comply with the SDSS's spatial planning guidelines, either through a detailed spatial plan at the national level or through a local spatial plan at the municipal level.

At the national level, the **1999 Law on the Promotion of Balanced Regional Development** provided the legal basis for implementing the EU's Structural Funds in Slovenia. The law established the **National Agency for Regional Development (NARD)**, initially as a constituent body of the Ministry of the Economy; it later came under the jurisdiction of the Government Office of Local Self-Government and Regional Policy (GOSP) established in 2003. With the abolition of the NARD, the GOSP became the managing authority for EU Cohesion Policy, whereas the Government Office for Growth and European Affairs took over responsibility for co-ordination among central ministries and long-term development plans at the national level. The **Council for Structural Policy** was established as a cross-sectoral body responsible for co-ordinating documents proposed for implementing structural policy at the national level and for the formation and co-ordination of national development incentives and structural assistance allocated by the EU.

Finally, 12 **regional development agencies (RDAs)** were established for the 12 statistical regions (NUTS 3[1] level) with responsibility for regional planning, project initiation and development. The reform of the law in 2005 introduced a new allocation of responsibilities between municipal and regional levels, by giving regional development agencies the role of providing mostly technical and administrative support to regional councils, which are representeatives of municipalities in charge of regional development planning.

At the sub-national level, there are no elected regional governments between the national government and the 210 municipalities in Slovenia. The Constitution of 1991 (and particularly Article 143) was amended in 2006 to allow for the creation of regions by law.

Impacts of EU regional policy

Regional development has been one of the most complex issues in Slovenia's negotiations with the EU. The implementation of EU Cohesion Policy has triggered: *i)* changes in Slovenia's territorial organisation (still under way); and *ii)* a significant inflow of Structural Funds.

Slovenia formally aligned its statistical regions with the NUTS classification in March 2000. At that time, the government took the initiative to establish two large NUTS 2 regions (Ljubljana Urban Region and the rest of Slovenia). However, following negotiations with the European Commission, Slovenia established two NUTS 2 regions (Eastern Slovenia and Western Slovenia). Under the Cohesion Policy framework, Slovenia was, however, considered a single NUTS 2 programming area in the 2004-06 and 2007-13 period. The Act on the Promotion of Balanced Regional Development established a system of 12 "development regions" corresponding to NUTS 3 units, but no administrative authority was devolved to this level at that time and discussion of the corresponding institutional reforms are still ongoing.

For the 2004-06 period, Slovenia received around EUR 237.51 million of the Structural Funds through a single development programme. The development programme focused on three priorities: productive sectors and competitiveness; human resources and employment; and agriculture, forestry and fisheries. Slovenia also received EUR 23.65 million under INTERREG programmes and EUR 6.44 million from EQUAL initiatives. Finally, Slovenia received about EUR 188.71 million of additional aid from the Cohesion Fund for infrastructure projects in environmental fields (drinking water, waste water, solid waste, etc.) and transport (roads, railways, ports, airports, traffic control). Overall, this amounted to less than 0.6% of GDP.

For the 2007-13 period, Slovenia has been allocated more than EUR 4 billion of Structural Funds and Cohesion Fund financing under the Convergence Objective. Structural and Cohesion Funds, which can be used over nine years until 2015, represent about 1.3% to 1.4% of GDP per year on average (EUR 2 054 per inhabitant over the entire period). The Slovenian development priorities will be implemented through three programmes. The first, the programme for "Strengthening Regional Development Potential", will receive funding from the ERDF. The second, the programme for "Human Resources Development", will be funded by the ESF. Finally, the programme for "Environmental and Transport Infrastructure Development" will be funded by both the ERDF and the Cohesion Fund. In total, Slovenia will invest over EUR 1.1 billion in R&D (28.5% of its allocation of Structural Funds); over EUR 1 billion to improve transport infrastructure (25%); and over EUR 1.5 billion of direct and indirect investment to protect and improve the environment. In relative terms, support for entrepreneurship, especially SMEs, is among the highest among EU member countries (17.6% of Slovenia's allocation of Structural Funds).

Main implementation tools

The main implementation tools for regional policy objectives are the different operational programmes defined in the context of EU Cohesion Policy. At the regional level, the 12 statistical regions develop 7-year regional development programmes (2007-13), with 3-year operational implementation plans. However, these programmes remain strategic documents, which are not compulsory for municipalities. They are not integrated into the state budget.

Budget structure

EU and central government funds: Regional policy is mostly co-financed by EU Cohesion Funds, of which EUR 619 million (15% of Structural and Cohesion Funds) have been allocated to support the 12 regional development programmes. Direct national funding for regional policy includes, for example, development aid for Posocje (EUR 1.197 million in 2009), the infrastructural development of areas with Roma population, and the co-financing investments in local municipalities (EUR 41 million in 2009). There is also indirect national funding for regional development policy, where calls for projects and tenders are presented, implemented by ministries and other public agencies (mainly the Ministry of Economy; the Public Agency for Entrepreneurship and Foreign Investment; the Slovenian Entrepreneurship Fund; the Public Agency for Technology and Innovation; the Ministry for Higher Education, Science and Technology; the Government Office for Local Self-Government and Regional Policy).

Local government revenues: Expenditures at the sub-national level constituted 8.8% of GDP in 2006 and 19.5% of general government expenditures (below the EU and OECD averages), with the largest portion of spending going to education (57.5% of expenditures linked to education were undertaken by municipalities in 2005-07). Personal income tax (PIT) revenue is divided between the central government and the municipalities. The municipal share increased from 30% in 1995 to 35% in 1999. Since 2007, the share has been determined annually, depending on communities' requirements with regard to their statutory obligations. In 2009, 54% of PIT revenues went to municipalities. The second category of municipal revenue involves sources for which municipalities have more discretion in setting rates, such as compensation for the use of building land, property tax and various fees. Municipalities that cannot meet their statutory expenditure requirements with their own revenue receive financial assistance from the central government through the fiscal equalisation system. The amount received by municipalities is based on a formula for "adequate spending", which incorporates the number of inhabitants, length of local roads and indicators of municipal development status. The vast majority of municipalities receive equalisation payments. Municipalities are also eligible for EU funds solicited through project proposals. In order to be eligible for such funding however, municipalities must demonstrate that they are capable of partially financing the project.

Governance structures

Two central government bodies are involved in the design of regional policy and the management of EU Cohesion Policy: the **Government Office of Local Self-Government and Regional Policy (GOSP)** and the **Government Office for Growth and European Affairs**. The Ministry of Finance and the GOSP are responsible for fiscal relations with sub-national governments. The GOSP co-ordinates work regarding the organisation, functioning and financing of municipalities with the various ministries and other bodies.

Between the central and the municipal level, Slovenia currently has 58 **deconcentrated administrative units** which function as representatives of the government across the territory.[2] Their heads are directly appointed by the government. These administrative units deliver central government services locally, for example issuing passports and drivers' licenses. They also co-ordinate the implementation of the central government's policies and locally manage the affairs of central ministries. Within the 58 deconcentrated administrative units, **special co-ordinating units** have been established for co-operation with municipalities, regional organisations, deconcentrated units of ministries and public entities in charge of service delivery.

Local self-government is constitutionally guaranteed in Slovenia. While the Constitution defines two tiers of local self-government – municipalities and regions – currently, municipalities are the only self-governing sub-national tier. At present, there are 210 municipalities, 30% of which have fewer than 2 000 inhabitants (the minimum population if a municipality wishes to establish itself). Among them there are 11 "urban municipalities" which must have at least 20 000 residents and 15 000 jobs, and must be a geographical, cultural, and economic centre in its area. The number of municipalities has been steadily increasing since independence. This trend toward fragmentation is particularly pronounced in the less developed parts of the country in the east and south. Slovenia allows officials to hold more than one elected office at a time. Thus around

one-quarter of the deputies in the National Assembly serve simultaneously as mayors; some others are deputy mayors.

Co-operation between the central government and municipalities occurs via consultation with the two national associations of municipalities. Slovenia has two representative associations of municipalities: the Association of Municipalities of Slovenia (ZOS) and the Association of Municipalities and Towns of Slovenia (SOS). By law, ministries must consult the associations on all potential legislation affecting the municipalities, and the associations in turn consult with the municipalities in order to consolidate opinions.

Co-ordination at the "regional" level – defined as NUTS 3 statistical regions – is provided by:

- **regional development agencies**, which elaborate regional development programmes (but have no enforcement capacity) and support the functioning of the regional development councils and councils of regions;
- **councils of regions** (also called councils of mayors), which bring together all mayors in a given region, work on a consensual basis and tend to focus on priorities linked to service delivery rather than economic development; and
- **regional development councils**, which were created as a form of public-private partnership for regional development, comprising representatives of the municipalities, social partners and NGOs.

Recent developments: The government is currently working on a reform of the Law on the Promotion of Balanced Regional Development which aims to foster a more effectively co-ordinated and contractual approach to regional development policies. The law proposes strengthening regional development programmes and establishing regional contracts for three years, to be approved by the national government (through a new inter-ministerial committee) and the regions (regional development councils). Implementation plans would be obligatory for municipalities and would be integrated into the national budget. The adoption of such a reform will be discussed by the end of 2010.

Regionalisation reforms, mainly linked to EU accession, have been discussed for more than a decade in Slovenia. The Constitution provides for the establishment of self-governing regions by law (Article 143). A non-binding referendum was held in 2008 on the creation of 13 regions (*pokrajine*), but turn-out was low. The principal source of controversy concerned the number of regions to be formed and their boundaries. The implementation of the subsidiarity principle has also involved a discussion on regionalisation of Slovenia. Over the last years, intensive discussions have been under way on the introduction of a regional tier. In 2009, the Prime Minister appointed a consultative group of experts (Strategic Council for Regionalisation and Decentralisation). Following its opinion and proposal, GOSP prepared draft legislative texts on regions. The regionalisation issue remains on the policy agenda, and authorities expect that moves toward reform in this area will continue.

Notes

1. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).
2. The state administrative units mirror, territorially, the 58 Yugoslav communes that existed in current Slovenian territory.

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Spain

Table 2.27. **Spain**

Country structure	• Unitary (highly decentralised), three levels of government (national, 17 regions [*comunidades autónomas*] and 8 114 municipalities [*municipios*])
Problem recognition	• Regional disparities and the gap with the EU average
Objectives	• Fair and adequate level of economic equilibrium across regions (Constitution) • Increase in the regions' competitiveness • Sustainable development
Legal/institutional framework[1]	• Economic development policy at regional level
Spatial orientation	
Urban policy framework	
Rural policy framework[2]	• Law on Sustainable Development of Rural Areas (2007) • Sustainable Rural Development Programme • Commission for Rural Development • Council for Rural Development
Major policy tools	• Inter-Territorial Compensation Fund (FCI) • Regional Investment Grant (RIG) • National Reform Plan • Plan for Boosting Enterprise (2006)
Policy co-ordination at central level	
Multi-level governance between national and sub-national levels	• Collaboration agreements (*convenios*) • Sectoral co-operation conferences • Conference of Regional Presidents
Policy co-ordination at regional level (cross-sectoral)	
Policy co-ordination at regional level (geographic)	• Communities of municipalities
Evaluation and monitoring	
Future directions (currently under discussion)	• Decentralisation to increase autonomy of regions and municipalities

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

Regional problems are generally analysed in the context of EU Cohesion Policy and a comparison of regional indicators with EU figures. In terms of GDP per capita, the number of regions above the EU average has increased, while Convergence regions (except for Murcia) are approaching the EU average at a slower pace than Spain as a whole. Other issues include the concentration of population growth in coastal and urban areas, pronounced ageing in regions with lower population density, performance below the EU average in productivity and labour costs, labour market and training variables, and inadequate R&D and innovation, especially in Convergence regions.

General objectives of regional policy

The Constitution has been committed to balanced development and solidarity since 1978: "Promoting the conditions favourable to a more equitable distribution of income by overseeing the establishment of a fair and adequate level of economic equilibrium between the different parts of the country". Increasing the regions' competitiveness and sustainable development are also objectives of regional policy. The national approach to regional development is embedded in the Structural Funds framework, which increasingly focuses on competitiveness. The central objective of the NSRF strategy is to "contribute to the Union's cohesion and balanced development, by means of joint and sustainable growth in both Spain and each of its autonomous cities and communities".

Legal/institutional frameworks of regional policy

Spatially oriented policies form only a small part of the national policy framework, as a consequence of the key role played by regional governments in economic development and the importance of sectoral policies. However, the Centre-left government which entered office in 2004 has approved some broader policy initiatives which impact on regional development. For instance, since the beginning of 2006, a Plan for Boosting Enterprise has been introduced including a programme for innovation support in SMEs and a new national clusters programme. This is in line with an ongoing strategic shift from basic infrastructure provision to Lisbon-oriented competitiveness themes.

The **Law on Sustainable Development of Rural Areas (LDSMR)** in 2007 is a key instrument for rural policy, with the central administration's public finance assured for 2009-13. The LDSMR launched a broad inter-ministerial and multi-annual Sustainable Rural Development Programme, which combines a number of budgets and has its own financial resources, thus creating a "rural budget". The law also established an Inter-ministerial Commission for Rural Development for horizontal co-operation at the central level, the Council for Rural Development as an organ for vertical collaboration between different public administrations (state, regions and municipalities) and the Table of Associations of Rural Development for civil society participation. In 2008, the Ministry of Agriculture, Fisheries and Food and the Ministry of the Environment merged into a single large Ministry of Rural, Environmental, and Marine Affairs (MARM).

Impacts of EU regional policy

Even though 2007-13 funding decreased by over 40% compared to the previous period (2000-06), the EU Structural and Cohesion Funds still constitute the most significant set of policy measures in terms of financial volume, and are delivered through a combination of national and regional programmes. The 2007-13 NSRF and operational programmes approved in 2007 saw a strong expenditure shift from basic physical infrastructure (mainly transport and environment) to competitiveness themes and a rationalisation in the number of multi-regional national operational programmes. Of the total EUR 35 billion allocated by the EU, the main priorities include R&D and innovation (including environment: EUR 12 billion), transport (EUR 7.5 billion), water and waste water (EUR 4 billion) and employment (EUR 3 billion).

Under EU Cohesion Policy, there are currently just two multi-regional national operation programmes: one for a knowledge-based economy, aiming to increase the level of R&D and quality science; and the other to promote R&D and innovation for and by firms through actions to structure the R&D and innovation system (including co-operation with the research-industry, technology platforms, and clusters), the creation and consolidation of technology centres, support for technology transfers, actions to broaden the science base, and support for traditional R&D and innovation projects.

Main implementation tools

The **Inter-Territorial Compensation Fund (*Fondo de Compensacion Inter-Territorial* – FCI)** provides regional governments in lagging regions with financial support for infrastructure and related investments. Since 2001, the FCI has been split into two investment instruments: the compensation fund and the complementary fund. Allocation of these resources to the different investment projects is agreed between the central government and the regional autonomous communities in the Public Investment Committee. The **Regional Investment Grant (RIG)** aids business investment with ERDF co-financing. The national legislation governing the RIG was revised in 2007 to reflect the new regional aid guidelines, but general lowering of the aid ceilings has not yet had an impact on the aid ceilings of the RIG. Changes to the FCI and the RIG have been limited in the interests of retaining a stable regional policy environment. While both funds have been historically restricted to Convergence Objective regions, the regions that lost Convergence Objective status in 2007-13 (a major part of Cantabria) continue to remain eligible for the funds in order to cushion the impact of reduced funding allocations. Only Valencia (the region's capital) and a neighbouring district were excluded from the regional aid map.

The **National Reform Plan** is the main reference of the government's current medium-term economic policy. The Reform Plan is inspired by the principle of the National Strategic Reference Framework. The **Spanish Stimulus Plan for Economic Recovery and Employment (Plan E)** is an investment tool designed by the Spanish government as a response to the negative impact of the financial crisis. Plan E follows international guidelines and the recommendations of the European Economic Recovery Plan (EERP). Plan E contains four courses of action: support measures for companies and families, promotion of employment, financial and budgetary action, and measures for economic modernisation. Special emphasis should be given to the National Fund for Local Investment, its sequel, the National Fund for Local Sustainability and Employment,

and the measures taken by the Official Credit Institute in support of SMEs, for they involve massive financial effort and are bound to have a clear territorial impact.

A specific priority axis on business development and innovation targets SMEs and aims to boost entrepreneurship, business growth and competitiveness. A series of initiatives were approved under the **2006 Plan for Boosting Enterprise**. This aims to enhance entrepreneurship, promote business creation and business growth, increase innovative capacity and knowledge transfer, strengthen internationalisation and simplify administrative procedures. Under this plan, INNOEMPRESA 2007-13 is a programme to improve the innovation capacity of Spanish firms, while a new cluster programme (AEI – *Agrupaciones Empresariales Innovadoras*), the first national clusters programme in Spain, has been launched.

Budget structure

Regional policy operated at the national level mainly involves three policy instruments: EU Structural and Cohesion Funds, the FCI and the RIG. Under EU Cohesion Policy, the total allocation for 2007-13 is EUR 35 billion, an overall decline of more than 40% compared to 2000-06. The highest relative reductions have been in the phasing-in and phasing-out regions with cutbacks of over 60%. FCI funding for 2000-06 Convergence Objective regions is on the rise, increasing from EUR 1.011 billion in 2004 to EUR 1.354 billion in 2009. Over half of this flows to two regions: Andalucía (averaging over 38% of the total) and Galicia (just under 16%). Finally, the value of awards under the RIG has also been growing, rising from EUR 363 million in 2006 to EUR 375 million in 2007.

Spain has a high share of sub-national expenditures even when compared to federal countries like Austria, Belgium and Germany. This is a result of two decades of decentralisation, mainly benefiting regional governments. The main transfer to regional governments is an equalisation transfer from the "Sufficiency Fund" based on the difference between expenditure needs and the fiscal capacity of the region.

Governance structures

The democratisation and decentralisation of government has resulted in a three-tiered and quasi-federal system with central, regional and local governments. In practice, the main financial, political and legislative competencies including economic development were shifted to the level of so-called autonomous communities (ACs – regional governments) in the early 1980s (1979-83). The devolution process moved from what is known as "asymmetrical devolution", that is, the devolved powers vary from one AC to another and within one AC over time, toward symmetric federalism in 1999. All ACs now have responsibility for primary functions including planning, public works, agriculture and tourism. Compared with other unitary countries in the OECD, regional governments in Spain are stronger than local level governments.

The main co-ordination mechanisms between the central government and the ACs are collaboration agreements (*convenios de colaboración*) and sectoral conferences. The ***convenios*** are the most frequent form of co-operation between the central government and the ACs, in order to develop a concrete activity or programme. The *convenios* are very flexible, as they may either imply only reciprocal duties and commitments, or establish a decision-making body. There are more than 1 000 *convenios* each year, many

of them with financial aspects such as subsidies. The Ministry of Territorial Policy (MPT) is in charge of keeping track of all of the agreements. There are 37 **sectoral co-operation conferences**, bodies which operate by sector in areas where the competences of the central government and the ACs are interrelated and need to be co-ordinated.

More generally, as part of the domestic territorial governance agenda, various developments seem likely to increase the role of the regions with respect to future regional policy. The government's "**territorial agenda**" involves reform of the AC statutes for the promotion of the ACs, the institutionalisation of regional participation in EU policy making, and the operation of a **Conference of Regional Presidents** composed of the central government President and the ACs' presidents. Launched in 2004, the conference is the highest level political co-ordination vehicle between the government of Spain and the regions. The presidents meet to discuss important themes and arrive at a common agreement among members on actions to be taken, similar to initiatives in some federal countries. Thus far, the conference has met four times. The First Conference (2004) discussed the institutionalisation of the conference, improving Spanish regions' participation in European Community programmes, and an analysis of the financing of public health. The Second Conference (2005) focused on an agreement regarding health financing. The Third Conference (2007) involved the adoption of the National Plan for Research, Technological Development and Innovation, an agreement to create Sectoral Conferences for Water and Immigration, and the creation of a working group to establish guidelines for the body. The Fourth Conference (2009) came to agreements about the Spanish presidency of the European Union and gender-based violence. It also approved its internal regulation and dealt with possible initiatives with regards to employment, sustainable economy, agriculture, livestock, fisheries and water.

There are five main mechanisms for co-ordinating EU Cohesion Policy: the Cohesion Policy Forum, the Fund Co-ordination Committee, the European Social Fund (ESF) Forum, thematic networks and monitoring committees. The most significant and novel development for 2007-13 is the creation of six **partnership-based sectoral networks** to promote the exchange of experiences and skills acquisition in the domain of the environment, urban initiatives, innovation, R&D, gender equality and social inclusion. In terms of organisation, the networks will include permanent representation from the Commission, central and regional governments, as well as other actors relevant to the specific network (*e.g.* local authorities for urban initiatives and NGOs for social inclusion). The **Ministry of Economy and Finance** negotiates with the EU, co-ordinates with regional ACs and the other ministries, and warrants the assessment of EU funded projects.

A change in terms of programme architecture is the reduction in the number of multi-regional operation programmes managed at the national level and the integration of some central government intervention into the regional programmes. The government's commitment to the institutionalisation of regional participation in EU policy making is also significant. An agreement has been approved to allow one regional government representative to participate in the Council of Ministers alongside central government. This has led to increased co-ordination and has also elevated the role of sectoral conferences in EU policy making, given that the criteria and modalities for regional representation and rotation are decided there. This has also stimulated new inter-regional co-ordination on EU policy making. However, the balance of expenditure between national and regional government interventions remains largely as before.

Collaboration between neighbouring municipalities was relatively weak, though the **communities of municipalities** (*mancomunidades de municipios*) increase and operate as special districts across several local governments to deliver specific public services such as water or waste disposal. Their success is due to their flexible organisation (regulated by a regional law).

Recent developments: Of special importance, all regions are currently immersed in the process of approving new statutes of autonomy as a basis for further decentralisation and consolidation of power. Regional statutes of autonomy include some wide-ranging powers that will have an impact on the regions' capacity to steer economic development and infrastructure policies. This will have a major impact on the distribution of future policy responsibilities in Spain. A new territorial financing model has been agreed for the next four years with increased funding for the regions and more fiscal autonomy. Spain is also undergoing a new stage of decentralisation towards local governments through the implementation of the local pact (*Pacto local*). **The local pact** is an institutional initiative strengthening the role of local governments with respect to both the state and the autonomous communities through the transfer of competencies and financial resources.

Performance monitoring: Instruments to support efficiency and accountability such as target-setting, monitoring, reviews, evaluation and reporting, are founded on frameworks for the delivery of Cohesion Policy. The main activities include the publication by the Director General for Community Funds of an annual report outlining the main policy developments and financial performance of EU Cohesion Policy, FCI and RIG. The monitoring committee provides the main forum for partner participation during programme implementation.

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Sweden

Table 2.28. **Sweden**

Country structure	• Unitary , three levels of government (national, 20 regions/counties [*landsting*], 290 municipalities [*kommuner*])
Problem recognition	• Demographic change and how to maintain an equal level of local public services across the country • Urban-rural linkages and diversification of rural economy • Climate change issues
Objectives	• Dynamic development in all areas of the country with greater local and regional competitiveness
Legal/institutional framework	• Regional development programmes (RUPs) • Regional growth programmes (RTPs)
Spatial orientation	
Urban policy framework	• National Programme for the Major Urban Areas 2006-09 (NUTEK/*Tillväxtverket*)
Rural policy framework	• National Strategy for Rural Areas (2009)
Major policy tools	• VINN excellence centres (VINNVÄXT) • NUTEK/*Tillväxtverket* regional cluster programme • Regional investment aid and transport grants • Fiscal equalisation system
Policy co-ordination at central level	• Co-ordination of the Ministry of Enterprise, Energy and Communications • National Forum and Thematic Group
Multi-level governance between national and sub-national levels	• National Forum and Thematic Group
Policy co-ordination at regional level (cross-sectoral)	• Regional development programmes (RUPs) • Regional growth programmes (RTPs) • Co-ordination of Swedish Agency for Economic and Regional Growth (*Tillväxtverket*)
Policy co-ordination at regional level (geographic)	• Establishment of new regions through county associations • Municipal co-operation bodies
Evaluation and monitoring	
Future directions (currently under discussion)	• How to structure the central government regional administration (co-ordination of decentralisation and deconcentration) • Creation of enlarged regions

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

Sweden has the second highest level of demographic and economic concentration in the OECD (Stockholm, Skåne and Västra Götaland encompassed 51% of the national population and 57% of the national output in 2005), but also the lowest levels of regional inequality in GDP per capita and in GDP per worker among OECD member countries. The three largest regions of Stockholm, Skåne and Västra Götaland accounted for 70% of national output growth over 1995-2005. Rural regions also perform relatively well. Key policy issues include how to improve urban-rural linkages and to mobilise the underexploited labour force, how to diversify the rural economy and to maintain equal levels of local public service delivery in a context of decreasing local revenues and high elderly dependency ratio, and how to address the fragmentation of the governance framework for regional development at the county (regional) scale, the lack of critical mass for effective public service delivery in some regions, and limited enforcement mechanisms for regional development programmes. Climate change and green growth issues are also high on the political agenda.

General objectives of regional policy

In Sweden, regional policy was initially formulated to address the specific problems facing the far north as well as structural problems related to old industrial areas. The **Government Bill in 2001** signalled an important shift of focus from the traditional aid-based regional policy targeted at the historically weak and peripheral regions to a more programme-based regional development policy which strove to achieve growth in all regions. The overall objective was to create "well functioning and sustainable labour market regions with a good level of services in all parts of the country". The bill underlined the importance of the local and regional levels in promoting regional competitiveness and developing growth potential, and stressed cross-sector co-ordination in tackling regional problems. Although the new regional development policy took an efficiency-oriented approach by emphasising the role of all regions in contributing to national sustainable growth and prosperity, it recognised that the traditional problem regions should retain their special status mainly via aid-based and problem-region-oriented measures, and also under the Structural Funds, because of the disadvantages they faced with regards to growth conditions.

The government's recent initiatives confirm this long-standing commitment to growth and equity. Following its accession to the EU in 1995, Sweden aligned its regional policy with EU Cohesion Policy. By renaming its regional development policy the "**Regional Growth Policy**" in the 2008 Budget Bill, the government has shown a renewed focus on promoting "dynamic development in all areas of the country with greater local and regional competitiveness".

Legal/institutional frameworks of regional policy

In 1998, the Swedish government introduced **regional growth agreements (RGAs)** to achieve greater integration between policy areas and to adopt a regional outlook on the use of the sector-specific public support that regions already received. In addition, the government encouraged integration between RGAs and EU Structural Fund programmes in order to achieve better leverage on financial resources and co-ordination between

policies. No additional financial resources have been provided for these purposes, as the intention was rather to better co-ordinate the use of the already existing resources within industrial, regional and labour market policies. RGAs were later replaced by regional growth programmes (RTP) and regional development programmes (RUP), so as to make policy more proactive and to increase the focus on achievements.

Regional development programmes (RUP) and **regional growth programmes (RTP)** have been the main instruments of Swedish regional policy since 2001 focusing on regional competitiveness. They are elaborated at the county level either by county administrative boards or by regional co-ordination bodies when they exist and the new regional self-governments (in Skåne and Västra Götaland). The timeframes for both types of programmes vary – RUP being more long-term oriented than RTP.

The regional development programmes (RUP) are the main document in terms of guiding work around regional development at the regional level. They are intended to act as "umbrella programmes" under which a variety of existing programmes (RTP, EU Structural Funds, transport plans, environmental plans, etc.) are brought together into a single coherent development strategy. The RTPs are an operational sub-programme of the RUPs.

They are voluntary documents financed by the public and private sectors. In 2009, 13 out of the 21 counties were working with an RTP. They provide useful tools for regional actors in the sense that they indicate priorities for investment and mobilise resources to deal with the impact of the economic crisis on Swedish regions. The national government provides guidelines in the design of RUPs and the NSRF provides guidance concerning the content. The RUPs' recommendations must be endorsed by the municipalities on a voluntary basis. *Tillväxtverket* (the Swedish Agency for Economic and Regional Growth) is supposed to assess how the regional growth strategies are working and to share good examples of successful methods. The RUP and RTP structure, along with the partnership network that brings together representatives from the private and public sectors, state authorities and non-profit sector, has promoted an environment of policy co-ordination, involving a more holistic and effective approach to regional development.

The responsibilities for all regions to utilise their specific strengths to contribute to national growth have meant that different areas have initiated more targeted policy instruments. The concept of regional enlargement through the support of functional regions has come to the fore, since a more extensive labour market is seen to provide better access to educated employees, leading to larger and more competitive environments.

Emphasis on functional regions also underlined the importance of urban centres and introduced rural areas within the regional policy remit. The **National Strategy for Rural Areas** was finalised in 2009. Similarly, the Swedish Agency for Economic and Regional Growth (NUTEK, later *Tillväxtverket*), under the Ministry of Enterprise, Energy and Communications, launched a **national programme for the major urban regions** for the period of 2006-09, thus allowing Stockholm, Götenborg, Malmö, and Östergötland to receive funding for growth-oriented projects, among others cluster development.

Impacts of EU regional policy

Though Sweden receives relatively modest funding from EU Cohesion Policy, which accounts for only 0.09% of GDP in the current programming period, reforms to the EU Structural Funds have been influential in shaping the current approach to regional policy. The National Strategic Reference Framework (NSRF), entitled "A National Strategy for Regional Competitiveness, Entrepreneurship and Employment 2007-13", has introduced a common strategy for the country and has also strengthened sectoral and regional co-ordination. Bringing together EU Cohesion Policy, domestic regional development policy and labour market policy has reinforced the policy focus on sustainable regional competitiveness, entrepreneurship and employment.

According to the indicative budgets available, the eight European Regional Development Fund programmes give priority to "innovation and renewal" (90% of funds); the remaining funds are shared across "skills supply and improved labour supply" (6%), "accessibility" (3%), and "strategic cross-border co-operation" (1%). In contrast with the 2000-06 programming period, all of Sweden is eligible for the EU Regional Competitiveness and Employment Objective. Due to the focus on sparsely populated areas, designated aid area population coverage has fallen only marginally from 15.9% to 15.3% under the regional aid guidelines, though the aid maxima were significantly reduced. Within the Aid Area A, there is also a **social security concession** available.

Main implementation tools

Sweden has been a leader in implementing national programmes to promote regional innovation. The government agencies **NUTEK (*Tillväxtverket*** from 2009**)** and **the Swedish Agency for Innovation (VINNOVA)** play an important role in providing support for business development and innovation respectively. NUTEK runs the **Regional Cluster Programme** (2005-10), which finances established cluster initiatives promoting international competitiveness. Urban areas are now more directly included in the analysis of regional development issues and were explicitly taken into consideration in the growth-oriented national programme of NUTEK (2006-09). VINNOVA has a range of programmes supporting business-related research and innovation. Key measures include: **VINN excellence centres (VINNVÄXT)**, which aim to increase growth and innovation with a long-term horizon (funding of 3.5 years and project continuation of ten years) and co-financing (at least 50% regional funding) in a total of 12 selected projects in 2008; and **institute excellence centres**, which aim, through co-operation, to create leading international research centres in fields central to the future growth and competitiveness of Sweden. These programmes have successfully focused on strengthening regional competitive advantages, providing process support mechanisms and more competitive and loan-based support, and encouraging collaboration between firms, academia and the public sector.

More spatially targeted regional policy remains implemented through **regional aid schemes**, which have **decrees of 2007 for regional investment aid and transport grants** to reflect the EU's 2007-13 regional aid guidelines. Regional aid policy continues to target the specific challenges facing weak and peripheral areas mainly in the north (but now excluding the cities of Lulea, Umea and Sundsvall) plus a few areas in central and south-east Sweden (covering, for instance, rural, sparsely populated or urban areas). The northern regions of Norrbotten, Västerbotten, Jämtland and Västernorrland received

approximately 44% of total funding in 2007 compared to their population coverage of 11%.

Budget structure

Regional policy funding has recently been reduced. Overall, regional aid funding declined from SEK 2 706 million in the peak year of 2003 to just under SEK 2 000 million in 2007. Set against this decrease, expenditure on regional growth agreements (2000-03) and regional growth programmes (2004-07) increased from SEK 13.4 billion in 2001 to a peak of SEK 26.1 billion in 2006, before falling back to SEK 14.8 billion in 2007. It is difficult to comment on this decline since different regions include different funding aspects within their programmes. Moreover, as 2007 was the first year of a new funding phase, it may not be typical of spending during the new programming period.

Sub-national governments account for about 45% of total governmental expenditures, which is one of the highest levels among OECD member countries. In parallel, an ambitious equalisation system eliminates most of the disparities among counties and municipalities in terms of revenue and public service delivery. The fiscal equalisation system changed in 2005 from a horizontal transfer system to a predominantly vertical transfer system, consisting of full cost equalisation (horizontal) and almost full income equalisation (vertical). Cost equalisation covers age structure, ethnicity, socio-economic conditions and geography. The system is currently reviewed by the Parliamentary Committee (2007-11).

Governance structures

The **Ministry of Enterprise, Energy and Communications** is responsible for the co-ordination and supervision of regional policy. Within the ministry, regional policy responsibilities are now divided between growth-oriented and enterprise-related activities. Most regional policy administration is carried out by ***Tillväxtverket*** which has responsibility for aid schemes, developing regional capacity and evaluation. The reorganisation of national agencies involved in regional development also took place in 2009. Three agencies – the Swedish Agency for Economic and Regional Growth (NUTEK), the Swedish National Rural Development Agency and the Swedish Institute for Growth Policy Studies – were merged into two, the Swedish Agency for Economic and Regional Growth (*Tillväxtverket*) and the Swedish Agency for Growth Policy Analysis (*Tillväxtanalys*). Considering the importance of these agencies for regional development, the merger is likely to have a profound impact on the way regional policy is carried out by the national government.

A significant effort has been made to enhance co-ordination at the national level since the new regional growth policy was established. The National Strategic Reference Framework (NSRF) for the use of EU funds for 2007-13, has proven to be much more than the basis for implementing the Structural Funds programme, like in many EU member countries. The design and implementation of the NSRF has led to improved co-ordination among levels of government, with private actors and across sectors, in particular through the following initiatives.

A **national forum** on regional competitiveness, entrepreneurship and employment was set up to create a formal setting for the discussions that took place in the preparation of the NSRF. The forum serves as a platform for ongoing political dialogue among national and regional representatives, for which the NSRF and the regional development programmes were the starting points. This form of co-operation is also expected to facilitate Swedish discussions with the European Commission. The forum has met nine times since 2007 and the debates have focused on themes related to the priorities of the NSRF, such as regional enlargement, regional innovation systems, cross-border integration as well as future Cohesion Policy, local and regional ownership of the Lisbon strategy, and rural development issues. **Thematic groups** regarding the priorities of the Swedish NSRF (innovation and renewal, skills supply and improved labour supply, and accessibility) were set up between 2007-09 to facilitate sectoral co-ordination among agencies and between agencies and regional and local authorities.

Co-ordination has been enhanced by the current economic crisis, with the introduction of regional co-ordinators. They co-ordinate actions and resources locally and regionally and thus improve the response to the crisis on behalf of the national government. At the central level, the government has also appointed a group of state secretaries to facilitate dialogue between the government and the local and regional co-ordinators.

The Swedish Constitution only mentions two levels of government: local and national. However, since the 1862 reform counties have had an elected council which is independent from the national government. The 20 county councils are primarily responsible for a large part of Sweden's health care. Over 81% of a county's budget is spent on health care in order to implement nationally set standards. Overall, although Sweden is one of the most decentralised OECD member countries in terms of public expenditures for welfare services, it remains relatively centralised for strategic planning and regional development. County councils are not very involved in regional development, economic development or spatial planning. Regional development represents only 3% of counties' expenditures and has traditionally been the responsibility of the county administrative board (*länsstyrelse*), which are state agencies at the county level. Sweden has also been particularly active in supporting inter-municipal co-operation for public service provision (through local federations and common committees in particular). Responsibilities can be transferred to municipal co-operation boards if all municipalities agree.

Traditionally in Sweden, the national government and the municipal level hold the majority of powers, while the intermediary/regional level is relatively weak. However, the structure has been changing since the late 1990s with the pilot regions and the regional co-ordination bodies, as well as the new policy instruments (such as regional development programmes). Sweden has developed different regionalisation options in different regions, *i.e.* decentralisation has been pursued in an "asymmetric" manner. By 2010, there are to be three county councils in charge of regional development, 12 counties with regional co-ordination boards indirectly elected, and five counties in which the county administrative board (national administration at regional level) will remain in charge of regional growth strategy. There have been three waves of regionalisation reforms.

The first took place from 1997/98 to 2002, with the creation of "pilot regions" in Västra Götaland (three counties including the City of Göteborg) and Skåne (with Malmö as its main centre). In these regions, directly elected regional councils have taken over

responsibility for regional development from the county administrative boards. At the same time, the central government's county administrative boards were also merged to respect the same geography as the regions. This phase has been described as a trial of limited duration and scope. However, because of strong regional support, the regional pilot project was prolonged for Skåne and Västra Götaland after 2002. Two other regions experimented with different institutional changes: one region – Kalmar – experimented with an indirectly elected regional council and in another, Gotland, the municipality assumes regional functions.

The second wave (2002-07) was less ambitious in scope. The Parliamentary Act of 2002 made it possible for counties, if all local municipalities agreed, to form regional co-ordination bodies, in line with the Kalmar model, which is an association composed of all of a county's municipalities. The county council may be a member. To date, 14 regional co-ordination bodies have been formed, and in 13 of these the county council has chosen to participate. The regional co-ordination bodies are indirectly elected and funded by a member fee. They are also partially funded by the national government for the tasks taken over from the county administrative boards. They are responsible for co-ordinating regional development and deciding certain government envelopes for regional development and infrastructure planning, such as roads and the broadband network.

Recent developments: The third wave, since 2007, with recent developments in 2009, can be described as a renewed bottom-up demand for regionalisation. It started with the publication of the recommendation for the future of the regional level by the Parliamentary Committee on Public Sector Responsibilities in February 2007. Relying on the positive assessments of the 2 pilot regions, the committee argued for the extension of the pilot region model, the merger of current counties and the creation of six to nine enlarged regions (with 1-2 million inhabitants, at least one university and one regional hospital).

The reform was not applied as such, but bottom-up demand for regionalisation was stimulated. Since 2008, seven counties have applied for a merger of counties and a conversion to regional authorities, and the government is currently examining their requests. Besides, the government reached a consensus in 2009 on the need to pursue regional reforms: pilot regions will be made permanent and the demand from Halland and Gotland has been validated. Most importantly, the government supports a bottom-up approach for county councils in all Swedish counties to receive competencies for regional growth. The recognition highlighted the need for improved co-ordination of central government agencies at the regional level, as both reforms are interlinked. The government has appointed a committee which has, among other tasks, to make proposals on how the structure of central government regional administration can be made clearer, more co-ordinated and more appropriate. Its conclusions should be known by December 2012.

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Switzerland

Table 2.29. **Switzerland**

Country structure	• Federal (confederation), three levels of government (national, 26 states [cantons and semi-cantons], 2 800 municipalities)
Problem recognition	• Peripheral area challenges
Objectives	• Increase the competitiveness of the regions and value-added of the rural, mountainous and border regions
Legal/institutional framework	• Federal Law on Regional Policy (2006) • Multi-year programme 2008-15 • Canton level regional policy making: four-year implementation programme (2008-11) • Four-year joint programme agreement (2008-11) • Federal Law on Spatial Planning and ten-year cantonal spatial development plan
Spatial orientation	• Rural, mountainous, border regions
Urban policy framework	• Federal Agglomeration Policy • Commission Tripartite
Rural policy framework	• Agricultural Law of 1999
Major policy tools	• Non-repayable grant and repayable loan • Financial equalisation system • Annual global fund • Federal-cantonal joint programme agreement
Policy co-ordination at central level	• Conference of the Confederation for Territorial Organisation (COT) • Federal Network for Rural Development • Working Party on Agglomeration Policy
Multi-level governance between national and sub-national levels	• Joint programme agreement (co-financing, target setting and fiscal incentives) • Networking agency *regiosuisse*
Policy co-ordination at regional level (cross-sectoral)	• Differs from canton to canton • Cantonal spatial development plan
Policy co-ordination at regional level (geographic)	• Differs from canton to canton • Inter-cantonal conference • Horizontal agreements (*concordats*) • Specialised associations (*syndicat*) • Regions (*e.g.* inter-municipal associations)
Evaluation and monitoring	• Federal government, cantons, *regiosuisse* • Monitoring related with programme agreement
Future directions (currently under discussion)	

Regional problems

Many regions, especially rural, mountainous, and border areas lack sufficient economic growth as well as competitive jobs and suffer brain-drain to urban centres. The rural economy, farming, forestry and tourism are in the midst of a comprehensive structural change and face challenges of globalisation.

General objectives of regional policy

The federal government's regional policy is designed to help rural, mountainous and border areas implement their development programmes. The federal Constitution has long contained a commitment for "protecting the economically threatened regions". However, the former core issues of regional policy, cohesion and spatial balance have become less significant. Reducing regional disparities and maintaining equivalent living conditions are no longer direct aims of Swiss regional policy, though they have to be met by the financial equalisation system and the policy of basic public infrastructure and services. The objective promoted by the New Regional Policy is "to increase the competitiveness and value added of the rural, mountainous and border regions in order to preserve and create jobs and help regions to keep up decentralised population".

The most important features of Swiss regional policy are: *i)* regions must take the initiative and collaborate with cantons to identify sensible priorities; *ii)* regional centres are drivers of development; *iii)* the principles of sustainable development have to be respected; *iv)* cantons are the main responsible bodies and central partners for the federal government; and *v)* federal offices co-operate intensively with one another and with national/international institutions.

Legal/institutional frameworks of regional policy

A **federal Law on Regional Policy** was passed in 2006 as a comprehensive basis for federal regional promotion. In 2007, the Parliament approved the first multi-year programme 2008-15, fixing the fundamental strategic orientation, such as establishing a value creation system with supra-regional and international orientation, environmentally friendly tourism, energy industry, forestry, agriculture and education.

The **New Regional Policy (NRP)** came into effect at the beginning of 2008. It is designed to make mountainous, rural and border regions more attractive places for business. The economic growth approach and export-based growth initiatives go hand in hand with increasing the existing strength of the regions. The major approach of regional policy was mainly infrastructural in the past, but has gradually moved toward a greater focus on regional specialisation and knowledge creation. The focus is now on improving soft locational factors like regional networks, access to knowledge, entrepreneurial spirit, business-friendly institutions, but also support for first-class economic-related infrastructure (not basic infrastructure).

The three pillars of the NRP are: *i)* increasing the economic strength of the regions (85% of total grant funding); *ii)* co-ordinating regional policy with federal agencies (8%); and *iii)* expertise for regional policy and the people involved in it (*i.e.* capacity building of regional policy makers) (~8%). Responsibilities for implementing pillar 1 lie with the cantons, while the federal government is responsible for pillars 2 and 3. The NRP targets

three categories of areas: rural and mountainous areas, which incorporate the vast majority of Swiss territory but exclude the large agglomerations and urban cantons; border regions under the framework of INTERREG; and 30 areas with specific structural problems, which are collaboratively defined by the Confederations and cantons.

The **Federal Law on Spatial Planning** was introduced in 1979 and the subsequent Spatial Planning Guidelines were issued in 1996. The leading philosophy became "decentralised concentration" and then "urban network Switzerland", *i.e.* polycentric territorial patterns which keep settlements and open space clearly separated and preserve open space. Spatial planning not only regards land use but also involves a wide array of policy fields that have a territorial impact, such as infrastructure and environmental protection. With time, the objectives of spatial planning were geared towards territorial co-ordination of infrastructure development. The federal government undertakes basic studies and establishes frameworks and principles which cantons must respect. It also takes responsibility for establishing sectoral plans and for co-ordinating sectoral policies. The sectoral plans must take account of cantonal spatial impacts. The Federal Office for Spatial Development (ARE) is in charge of federal spatial planning policy and co-ordination and approval of cantonal spatial planning and setting objectives for municipal and regional planning. Inter-governmental relations around spatial planning are addressed through the Council on Territorial Organisation (*Conseil de l'organisation du territoire* – COTER). This extra-parliamentary commission, established in 1997, advises the Federal Council, ARE and the Secretariat for the Economy (SECO).

Constitutionally, spatial planning is largely a cantonal task. Cantons establish the ten-year **spatial development plan (*Plan directeur*)** at the scale of 1:50 000 that defines the goals and strategies of a canton's spatial development, which is binding on administrative authorities and land-use plans. As the federal law prescribes that cantonal plans should define how activities with territorial effects should be co-ordinated, all infrastructure projects can be incorporated into the plan. Some of the cantons have successfully intensified links with financial plans and with regional policy tools. Cantons need to take federal plans into account and the Federal Council approves cantonal plans after considering the national situation and that of neighbouring regions. Though land-use planning is frequently delegated to municipalities, supra-municipal spatial planning tasks are often delegated to regional planning associations, which produce regional plans based on the cantonal *Plan directeur*. The NRP cantonal implementation programmes must be consistent with the *Plan directeur*. Hard infrastructure investment through the NRP is therefore effectively subservient to cantonal spatial plans.

In 2006, Switzerland launched a spatial planning reform across levels of government. By signing the "Convention for the Common Development of a Territorial Development Project", all three levels of government committed to work together to define a national concept which would provide the basis for future co-ordinated action by actors at different levels. The concept is scheduled to be finished by 2011 though is it not binding.

An amendment of the Constitution in 2001 opened the way for urban policies. The new Article 50 states that "the government shall take into account the particular situation of the cities and the agglomerations". There are 50 statistically defined agglomeration areas, which can be divided among large (more than 1 million inhabitants), medium and small (20 000 inhabitants) agglomerations. The main goal of the federal **agglomeration policy** (since 2001) is to improve amenities and the competitiveness of urban centres and agglomerations. Agglomeration policy relies on incentives (funds for traffic infrastructure), networking between players and the pooling of knowledge. It is based on

five distinct strategies: gearing the tasks of federal government to agglomeration problems, improving vertical collaboration, promoting integration in the European urban network, improving horizontal collaboration, experience-sharing and awareness rising.

Agglomeration policy (total budget of CHF 6 billion) consists of the so-called agglomeration programme, which is accompanied by a programme agreement and co-financing of the Confederation and the co-ordinating body; infrastructure fund (CHF 20.8 billion over 20 years); and model projects providing up to CHF 500 000 annually for 3-6 years to innovative projects. Agglomeration policy is the joint responsibility of the ARE (lead) and SECO. The Working Party on Agglomeration Policy co-ordinates central level policies on agglomerations. The ***Tripartite Agglomerationskonferenz*** **(TAK)** consisting of the three levels, federal, cantonal and municipal, was founded to promote vertical co-operation in metropolitan policies in 2001.

The main objectives of the Agricultural Law of 1999 are environmental sustainability and functioning markets for agricultural products. An important mechanism to enhance co-ordination among sectoral policies with an impact on rural areas was the creation of the **Federal Network for Rural Development** in 2006, which is jointly financed by four federal offices (Economy, Agriculture, Environment and Spatial Development). The network currently operates 13 pilot projects and is expected to endure through 2011.

Main implementation tools

The NRP is implemented via an **eight-year programme** developed by SECO, with the input of cantons. The programme has six thematic priorities with different geographic targets, among which knowledge transfer and structural change in tourism are currently considered the most important. The federal government invites all cantons to submit a detailed **four-year implementation programme** to the federal government in order to apply for funding. The programmes embody its objectives and strategies for regional policy, in alignment with the federal level eight-year programme and in consultation with SECO. The federal government assesses the fundamental strategic orientation of the canton's proposed strategy. If agreed, the federal government and the canton sign **a four-year joint programme agreement** (convention-programme), defining objectives, measures, milestones, management processes, timetable, and each party's financial contribution. Measures to monitor their achievement and annual reporting are also specified.

Budget structure

In the multi-year programme 2008-15 of the NRP, the federal government pays out an annual average of CHF 40 million in non-repayable grants. It also provides about CHF 50 million in repayable loans with preferential interest rates for infrastructure development. The cantons spend at least as much as the federal government for implementing their programmes. In most cases, project sponsors (*e.g.* private sector) also contribute to the costs. Funding for regional development policy is comparatively small at the national and cantonal levels, compared to sectoral spending in key areas and fiscal equalisation transfers. In addition to the grants and loans, reductions of direct federal tax may be provided to private companies in specific geographic areas. Tax reductions are limited to ten years and provided only if the canton provides a financial contribution equal to that of the Confederation.

The federal government pays out **annual global funds** to the cantons, which allocate them in their regions. To be funded by the NRP, projects must conform to the strategic focal points of the cantons' overriding development strategy; promote the export of goods and services from the region, the canton or the state; must be innovative; and meet the latest environmental and social standards. Only projects with an impact on mountainous, rural and border regions can receive support from regional policy. The five largest conurbations – Zurich, Geneva, Basel, Bern and Lausanne as well as the urban cantons Zurich, Zug, Solothurn, Basel-Stadt, Basel-Land, Aargau and Geneva receive no financial support. However, they can apply for funds on special request for regions with the specific challenges of rural, mountainous and border regions.

Cantons and, to some extent municipalities, are entitled to have their own fiscal system (*i.e.* to set tax rates and, to some extent, tax bases). However, the fiscal gap, *i.e.* the difference between sub-national government's expenditures and their own revenues, is quite significant. Despite considerable fiscal autonomy at the sub-national level, the cantons depend extensively on inter-governmental transfers, among them, earmarked transfers. The most important sectoral subsidies, in particular those for agriculture and for local roads are largely oriented to achieve urban-rural balance.

The **reform of the fiscal equalisation system**, called the "New Organisation of Fiscal Equalisation and Task Allocation", was enforced in 2007. The reform took more than 15 years and required the amendment of one-eighth of the Swiss Constitution. It has allowed for a clear division of labour between the Federal Department of Finance (in charge of ensuring equity across cantons through fiscal equalisation) and SECO (in charge of promoting the economic competitiveness of cantons through NRP). It also strengthened incentives for cantons to bolster their tax bases, for example, by attracting new firms.

The new fiscal equalisation system consists of two elements: *i)* a horizontal equalisation fund financed from cantons with above-average tax-raising capacity to cantons with below-average tax-raising capacity; and *ii)* a vertical equalisation fund financed by the federation for cantons with very low tax-raising capacity or with above-average infrastructure or socio-demographic cost. The size of the vertical equalisation fund should be around two-thirds of the size of the horizontal equalisation. Every four years, Parliament decides on the total size of equalisation.

To compensate for the financial cost linked to the newly introduced vertical equalisation fund, the federal government reduced the share of the cantons in the federal income tax. However, the federal tax system, tax assignment across levels of government and cantonal taxing power remained untouched. In addition, a hardship fund was created to compensate cantons that were net losers of the reform, for a period of up to 28 years.

Governance structures

At the federal level, the agencies concerned with regional development co-operate closely with one another. The **Federal Secretariat for Economic Affairs (SECO)** manages the NRP, while the **Federal Office for Spatial Development (ARE)** (jointly with SECO) is in charge of spatial planning and agglomeration policy. The Federal Office of Agriculture is responsible for agricultural and rural policy. Ministries dealing with territorial development issues have to convene regularly in an inter-ministerial body called the **Conference of the Confederation for Territorial Organisation (COT).**

Under the joint authority of SECO and ARE, the COT brings together federal actors four times per year and a workshop on a relevant topic of interest is held annually.

Various agencies are involved in the federal government's policy on integrated spatial planning. Beyond national borders, the federal government continues efforts for European territorial co-operation. The cantonal and regional bodies responsible for the NRP are supported by the federal government through the **networking agency *Regiosuisse***, which is not part of the federal administration. *Regiosuisse* provides expertise, practical as well as theoretical, exchange of knowledge, a website, the latest news, etc.

The country is divided into 26 cantons and around 2 800 municipalities. All cantons enjoy the republican status of statehood and are endowed with a Constitution. Extended responsibility and fiscal power enable the cantons to determine and pursue their own development strategies. The Confederation cannot intervene directly at the municipal level. Governance structures and municipal autonomy varies greatly from canton to canton. Cantons and municipalities exert large regulatory and expenditure powers, especially in the fields of education and health care. Economic development policies are primarily the task of the cantons. However, the Confederation, through its sectoral policies, exerts considerable influence on certain territories. Social welfare is mainly a municipal task, with strong involvement of the cantons through the vertical and horizontal equalisation schemes.

Inter-cantonal co-ordination mechanisms often remain sectorally focused. Approximately 25% of the NRP funds are set up for 2008-11 to fund inter-cantonal projects (CHF 23-31 million from pillar 1). However, the funds have been left unused due to a lack of projects. Three major mechanisms for inter-cantonal co-operation are **cantonal conferences**, **inter-cantonal concordats**, and **cross-border co-operation**. In addition to the national Conference of Cantonal Governments, inter-cantonal conferences of directors are also organised regionally. The Conference of Cantonal Economic Directors has played a particularly important role in connecting the Confederation and cantons in terms of regional policy. Cantons also engage in horizontal agreements (*concordats*), mainly in the pragmatic fields of education and health care. Most inter-cantonal concordats are bilateral tax treaties aimed at eliminating double taxation. Some cantons actively promote municipality mergers through incentives.

Within cantons, the NRP programmes apply primarily to "**regions**" although their definition varies across cantons. According to the Law on Regional Policy, regions are originally defined as groups of cantons. But today, most regions are inter-municipal associations or corporations that finance joint regional management (financed by a canton and member municipalities). Most of the cantons have established service agreements with their regions. Inspired by the French experience, some cantons enter into contractual agreements with groupings of communes via "agglomeration contracts" or "regional contracts" to achieve development objectives. Specialised associations (*syndicats, Zweckverbände*), whose members are usually participating municipalities, collaborate for specific purposes such as water treatment and public transport.

Performance monitoring: An important component of the NRP is the collection, preparation and application of information on the subject of regional development. The federal government is responsible for the overall implementation of the NRP over each of multi-year period. Programmatic monitoring is largely associated with the programme agreement between the Confederation and each canton. Each programme agreement sets out the objectives to be attained over the duration of the agreement (four years). Objectives are monitored on an ongoing basis using indicators selected by the canton and

incorporated into the programme agreement. A financial incentive to reach the stated objectives is provided insofar as cantons will receive the proportion of funds corresponding to the per cent of the target achieved. In some cases, cantons may be required to return funds if the target is not achieved.

There is substantial heterogeneity in the monitoring approach taken by cantons. Fourteen of the 26 cantons use the CHMOS system to capture programmatic data. CHMOS, co-financed by SECO and by 15 cantons, acts as a programme management tool for cantons and serves as a federal-cantonal reporting tool for annual reports, the 2011 interim report and the 2015 evaluation. Cantons report their achievements in an annual report to the federal government. The **networking agency *Regiosuisse*** is also responsible for monitoring activity, which is based on ten economic development indicators.

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Turkey

Table 2.30. **Turkey**

Country structure	• Unitary, three levels of government (national, 81 provinces, 3 225 municipalities/34 304 villages)
Problem recognition	• Regional disparities across rural and urban areas and across regions • Disparities between Turkey and EU member countries
Objectives	• Make regional development policy effective at the central level • Ensure development based on local dynamics and internal potential and increase institutional capacity at the local level • Ensure development in rural areas
Legal/institutional framework	• Ninth Development Plan 2007-13 • National Regional Development Strategy (2010)
Spatial orientation	
Urban policy framework	
Rural policy framework	• National Rural Development Strategy (2006)
Major policy tools	• Geographically differentiated incentive measures, Growth Centres Development Programmes • Village Infrastructure Support Programme (VISP) • Rural Development Investment Support Programme (RDISP) • Regional development projects (*e.g.* Eastern Black Sea Project)
Policy co-ordination at central level	• Co-ordination of State Planning Organisation • Inter-ministerial committee
Multi-level governance between national and sub-national levels	
Policy co-ordination at regional level (cross-sectoral)	• Governorships • Development agencies
Policy co-ordination at regional level (geographic)	• Governorships • Development agencies
Evaluation and monitoring	• Provincial Co-ordination and Monitoring System (İKİS) • Development Agencies Management System (KAYS)
Future directions (currently under discussion)	

Regional problems

The imbalances in socio-economic structure and income level both across rural and urban areas and across regions continue to be challenges. With the accession process to the EU, the mitigation of the development disparities between Turkey and EU member countrys is also gaining importance. In cities, the existing physical and social infrastructures and employment opportunities remain insufficient in meeting the pressure created by intense population migration movements. In rural areas, decreasing agricultural employment has raised the need to improve non-agricultural employment opportunities. The scattered and disorganised structure of rural settlement restricts the effective provision of physical and social infrastructures.

General objectives of regional policy

Since the 1960s the **five-year national development plans** have had a regional development component aimed at reducing regional disparities. There has been consistent tension in the plans between two main goals, *i.e.* "maximising national income" and "reducing inter-regional disparities". One of the five development axes defined in the Ninth National Development Plan of Turkey 2007-13, adopted in 2006, is "ensuring regional development". It consists of three pillars: making regional development policy effective at the central level; ensuring development based on local dynamics and internal potential, increasing institutional capacity at the local level; and ensuring development in rural areas. The plan emphasises the inter-regional income differentials in Turkey, and between Turkey's regions and EU regions, and includes plans to overcome inter-regional migration problems and provide better quality urbanisation. The plan also alludes to improving the competitiveness of regional cities to counterbalance the weight of Istanbul.

Legal/institutional frameworks of regional policy

The EU accession process induces radical changes in regional development policies, bringing about a programme-based and participatory approach. New regional policies are intended to consider the unique economic structure of every local/regional economy, stimulate local/regional resources, improve co-operation among the local/regional agents and bring regional competitiveness to the forefront. This process is not centralised, it is a bottom-up approach.

The **Ninth National Development Plan** of Turkey 2007-13 is the master plan for socio-economic development. One of its axes is regional development. Based on the plan, the **National Strategy for Regional Development (NSRD)** will be planned in 2010 in order to provide national co-ordination and form a general framework for the preparation of low-scale **regional plans** and strategies. The NSRD will be prepared using a strategic planning approach and include a national spatial development perspective. The relationship between regional development and spatial development planning will be strengthened. Development strategies and plans for all regions will be completed in collaboration with development agencies and they will be provided with sufficient financing. The spatial planning hierarchy, and the duties and responsibilities of the related institutions will be redefined. In preparing the NSRD, priority will be given to the preparation of regional development plans, newly developed rural growth centres, and densely constructed tourism areas, conservation areas and areas under risk of disaster.

For rural development, the **National Rural Development Strategy (NRDS)** was enforced in 2006. The strategy is the reference document both for IPARD Programme (2007-13) and the Draft Rural Development Plan (2010-13). The NRDS aims to constitute a comprehensive policy framework for rural development activities and provide a perspective for relevant stakeholders in preparing and implementing rural development programmes and projects financed through both national and international resources. It also ensures that rural Turkey improves economic and social convergence with the EU and alignment with related EU rules (*acquis*).

Main implementation tools

Incentive measures (discount of income tax and social insurance institution premium payments) are re-regulated by legislation approved in 2009. This new scheme differentiated incentive measures according to sectors and regions. Turkey was divided into four incentive regions based on socio-economic development levels. The **Growth Centres Development Programme** prioritises strategic projects in 12 centres that have a high potential to provide services for their periphery and will perform as an urban growth hub.

The **Rural Development Investment Support Programme (RDISP)** has been implemented since 2006 in 81 provinces to support individual projects on irrigation systems, agricultural investments, food processing, packaging and storage. The **Village Infrastructure Support Programme (VISP)** has been implemented since 2005 in order to solve the infrastructure problems related to roads, drinking water and the irrigation of villages and sub-villages.

In some of the lagging regions, multi-sectoral comprehensive **regional development projects** are being implemented. These projects are the Zonguldak-Bartın-Karabük Regional Development Project, the Yeşilırmak Basin Development Project, the Eastern Black Sea Project, the Eastern Anatolia Project and the South-Eastern Anatolia Project. An action plan is being prepared for Konya Plains including Konya, Karaman, Aksaray and Niğde provinces.

Budget structure

Sub-national governments (provinces and municipalities) did not have enough resources to perform their responsibilities. Bottlenecks for the provision of resources led them into debt. However, the Law about the Share Given to Municipalities and Special Provincial Administration from General Budget Incomes (No. 5779) of 2008 contributed to local finances in that the revenues of the local administrations were improved in real terms and stabilised by direct payments from general budget tax revenues by taking into account the social and economic index of the provinces. In addition to population criterion, the local development index, the area of the province, the number of villages and the rural population were added as new criteria.

The total budget of the EU-Turkey Financial Co-operation Programme for Regional Development Projects including special regional development programmes such as DOKAP (the Eastern Black Sea Region Development Programme) and DAP (the South-Eastern Anatolia Development Programme) is around EUR 259 million.

Governance structures

The **State Planning Organisation (SPO)** plays a prominent role in planning regional policy at the national level and ensuring horizontal co-operation among central administrations (*e.g.* the establishment of an inter-ministerial committee). The SPO is also responsible for co-ordinating and monitoring EU programmes through the EU regional department programmes and the Monitoring and Evaluation Department.

The whole country is divided into provinces, and provinces are divided into municipalities and villages. As of 2007, there were 81 provinces, 3 225 municipalities (including metropolitan municipalities) and 34 304 villages. Provinces operate as field branches for the central administration and as the regional government. A governor is appointed by the Council of Ministers and approved by the President. Governors represent the state in the provinces and are head of the provincial administration, and supervise local administration. Authorities and responsibilities of local administrations in the field of development were increased with the Laws on Special Provincial Administrations, Municipalities, Metropolitan Municipalities, and Local Administration Unions. Additionally, the official Nomenclature of Territorial Units for Statistics (NUTS), in accordance with EU regional policy, was introduced at three levels in 2002.

The law on the Establishment, Co-ordination and Duties of Development Agencies came into effect in 2006. Based on this law, **development agencies** commenced activities in two NUTS 2 regions[1] (Izmir: the third biggest city in Turkey and two medium-sized cities in Cukurova [Adana/Mersin]). Eight more development agencies were established in 2008 and the remaining 16 development agencies in July 2009. All development agencies were to be fully operational in the first half of 2010. Development agencies aim at accelerating regional development, promoting sustainability and reducing intra- and inter-regional development disparities. They work to improve collaboration among the public sector, the private sector and non-governmental organisations in local and regional development, and to ensure the efficient use of resources by activating local dynamics and internal potential. The funds are mainly allocated from other bodies (public and private). The State Planning Organisation is responsible for co-ordinating agencies at the national level.

Greater municipalities have been created for metropolises like Istanbul or Izmir. There are 16 metropolitan municipalities covering several constituent municipalities. The metropolitan councils are an extra administrative layer and are comprised of the mayor of the metropolitan council, the mayors of the constituent municipalities, and one-fifth of municipal councillors. The mayor of the metropolitan municipality is elected by direct suffrage. His main role is to co-ordinate the constituent municipalities.

Performance monitoring: The **Provincial Co-ordination and Monitoring System** (İKİS) is a common information and communication platform. It aims to strengthen co-ordination and communication both between central and local levels (vertical co-ordination) as well as between institutions at the central or local levels (horizontal co-ordination). Local actors are involved in the decision-making processes of planning and the application phase. The system is composed of three prototypes. The first prototype has been developed to systematically monitor provincial level investments, determine problems and propose solutions. Other prototypes will be developed through 2011 and will improve the system with decision support systems.

The **Development Agencies Management System (KAYS)** has been developed to strengthen the institutional capacity of development agencies and the co-ordination activities of SPO in regards to the development agencies. KAYS consists of eight modules: support for budgeting, accounting and programming; support for and monitoring of projects and activities; human resource management; stakeholder database management; archive and document management; investment support office activities; performance management; and regional plan studies. KAYS was developed through process analysis and modelling, and as a result of software development. Both process modelling and software development have been completed for the budgeting, accounting and programming module. Process modelling was only completed for support for and monitoring of projects and activities, human resource management and stakeholder database management. Process modelling of the other modules and software development for support for and monitoring of projects and activities will be completed in 2010.

Note

1. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

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United Kingdom

Table 2.31. **United Kingdom**

Country structure	• Unitary, consisting of four constituent countries (England, Scotland, Wales and Northern Ireland). The sub-national structure is highly complex and differs widely between countries.
Problem recognition	• On-going inter-regional and intra-regional disparities • Urban deprivation
Objectives	• Target the key drivers of productivity in all regions • Enhance commitment to devolved/decentralised arrangements for policy delivery
Legal/institutional framework[1]	• Regional Economic Performance Public Service Agreement (REP PSA) • Integrated Regional Strategy (England)
Spatial orientation	
Urban policy framework	• No single legislation
Rural policy framework[2]	• Rural White Paper (2000) and rural-proofing • Rural Strategy (2004), including Rural Pathfinders • Law of Natural Environment and Rural Communities (2006)
Major policy tools	• Regional Selective Assistance (Scotland and Wales) • Selective Finance for Investment (England) • Funding for the RDA (England)
Policy co-ordination at central level	• Regional Economic Performance Public Service Agreement (REP PSA)
Multi-level governance between national and sub-national levels	• Regional Economic Performance Public Service Agreement (REP PSA) • Integrated regional strategies (England) • Regional development agencies (RDAs) (England) • Regional minister (England) • Government Offices and the Regional Emphasis Document (England)
Policy co-ordination at regional level (cross-sectoral)	• Regional development agencies (England) • Integrated regional strategies (England)
Policy co-ordination at regional level (geographic)	• Regional development agencies (England) • Integrated regional strategies (England) • National Planning Framework of Scotland • Wales Spatial Plan • Local and multi-area agreements • Urban or city-region strategies • Economic Prosperity Board
Evaluation and monitoring	• Spatial Economic Research Centre • Regional Observatories
Future directions (currently under discussion)	• Balance between regional and city-region/sub-regional and local approaches • New Conservative-Liberal Democrat Coalition government has announced plans to dismantle regional planning structures and RDAs in England and replace them with local enterprise partnerships

Notes: 1. In all EU member countries, the National Strategic Reference Framework (NSRF) required by Cohesion Policy is also part of the legal/institutional framework.

2. In all EU member countries, the National Strategic Plan (NSP) (and the regional Rural Development Plans [RDPs] in federalised and strongly regionalised countries) is a basic rural policy document required by EU Rural Development Programmes. Each member country has the choice of either submitting a single NSP for its entire territory or of breaking down its territory into regions and submitting a set of regional RDPs.

Regional problems

All regions have experienced considerable growth in recent years. Although trends indicate narrowing gaps between regions, for instance with respect to regional skills, the gap between the top (south-east) and bottom performing regions remains a core concern. Entrepreneurial activity and innovation especially continue to be focused on the south-east. London and cities in the south-east/eastern regions are the key drivers of the English economy with "islands of growth" in city regions like Bristol, Leeds and Manchester in particular, and some smaller cities. The key is how to spread this growth more widely, or at least, improve access to areas of growth from the areas which are growing more slowly.

Beneath the regional level, there is increasing awareness of sub-regional disparities which have been growing strongly. For instance, differences in unemployment rates within regions are greater than differences between regions. Also, significant sub-regional problems relate to output and growth rates which are usually more accentuated within the richer regions. In particular, the view is that urban areas can contribute significantly to economic growth. Moreover, ongoing urban deprivation continues to pose policy challenges.

General objectives of regional policy

Regional policy was long associated with the provision of regional aid in the designated assisted areas, combined with targeted infrastructure. In 1999, devolved strategy making and policy delivery began with Scottish and Welsh devolution. In 2003, a Modern Regional Policy for the United Kingdom adopted an all-region perspective and considered regional disparities to be a consequence of market or government-based failures. Since then, regional policy has adopted a broader perspective, targeting the key drivers of productivity (competition, enterprise, innovation, skills and investment), with an enhanced commitment to devolved/decentralised arrangements for policy delivery.

The primary goal of the 2004 Regional Economic Performance Public Service Agreement is to make sustainable improvements in the economic performance of all regions (urban and rural) based on their potential. Regional policy is about striking a balance between promoting growth and ensuring that the gap between growing and lagging regions is narrowed to make the best use of the potential of all areas.

The 2007 *Review of Sub-National Economic Development and Regeneration in England* (SNR) reinforced recent policy developments regarding England: the focus on factors of productivity in all regions; the ongoing rationalisation of supply-side business support measures; the inclusion of a broader range of policy areas under the regional development headings; clarification of lines of responsibility between regional development agencies (RDAs) and sponsoring departments at the central level; and the decentralisation of some delivery responsibilities. It is also committed to reducing the spatial concentration of deprivation. The SNR also aims at overcoming the gap between administrative and functional economic boundaries, focusing on co-ordination across and between administrative levels. Equity-related concerns continue to register, in part through the aim to reduce growth rate differentials between the best- and worst-performing English regions but also by reducing the spatial concentration of deprivation.

A subsequent 2008 consultation document, *Prosperous Places: Taking Forward the Review of Sub-National Economic Development and Regeneration* put a clear emphasis on delivery issues. Its aim was to reform public institutions to achieve sustainable economic growth, development and regeneration at every spatial level through the better alignment of spatial and economic planning in a sustainable development framework.

In Scotland, the **Government Economic Strategy (GES)** includes a commitment to reducing regional disparities. The **Wales Spatial Plan**, adopted by the Welsh Assembly Government in 2004, also recognises the need to improve prosperity and the quality of life in all of the principality's six sub-regions.

Legal/institutional frameworks of regional policy

Devolved strategy making and policy delivery remain organising principles of regional policy, albeit within a centrally co-ordinated policy framework. A general trend towards the allocation of central funding through block grants (*e.g.* the "single pot" of RDA funding in England) permits a degree of regional flexibility. Basic regional policy objectives and targets continue to be set by the cross-departmental **Regional Economic Performance Public Service Agreement (REP PSA)**, to which the Treasury, the Department of Business, Innovation and Skills (BIS, formerly BERR), and the Department for Communities and Local Government (DCLG) are joint signatories. The REP PSA includes high-level targets that take account of key aims and objectives as well as outcome-focused performance targets. It has an all-region approach and covers measures which impact on the key productivity drivers in the regions (competition, enterprise, innovation, skills and investment), as delivered through the RDAs in England and the devolved administrations elsewhere in the United Kingdom. The 2007 *Comprehensive Spending Review* made BIS the lead department for the REP PSA (to which six other departments also contribute) and also for two other cross-government PSAs. Under these agreements, BIS has three main goals: to raise the productivity of the UK economy; to deliver the conditions for business success in the United Kingdom; and under the REP PSA, to make sustainable improvements in the economic performance of all English regions and reduce the persistent gap in growth rates between the regions. A series of contracts and agreements are in operation to co-ordinate the inputs of central, regional and local levels. The UK Treasury leads the Cross-departmental Steering Group that facilitates negotiations between departments and considers alignment of funding streams.

The last government aimed to create a framework of **integrated regional strategies (IRS, from 1 April 2010)** in England. The aim was to align spatial and economic planning and strengthen the strategic programming role of the RDAs. New Leaders Boards, consisting of local authority leaders in a region, were to oversee the preparation of the IRS by RDAs. Since the election of the new Conservative-Liberal Democrat Coalition government in May 2010, these regional structures in England will be dismantled with the abolition of RDAs, Regional Leaders Boards and integrated regional strategies. These will be replaced by local enterprise partnerships-joint local authority-business bodies to promote economic development. In June 2009, the Scottish government published Scotland's second **National Planning Framework (NPF)**, which sets out a strategy for long-term spatial development, identifying priorities for the improvement of national infrastructure.

Central government has increasingly utilised regional programming and policy instruments that support not only specific infrastructure or business aid provision but also diverse measures to promote spatial development, innovation, urban development, education and training, housing and the environment. It aims to introduce instruments to bring together various configurations of central, regional and sub-regional bodies to deliver policy in the context of functional economic areas and under a single programme, thus creating a more coherent regional strategic perspective. Central government has produced guidelines for the RDAs on the formulation and content of IRS. For improving accountability to appraise their contribution to regional economic growth, it was planned to draw on the democratic mandates through the participation of elected representatives at the national level (regional ministers and select committees) and local levels (through the Local Authority Leaders' Board) in ratifying the IRS. These arrangements are due to be discontinued under the new Coalition government's decentralisation plans to give new powers to local councils and communities. Further details are awaited.

Policy is also to encourage collaboration across local authorities, particularly on a city-region or sub-regional basis. The new **Local Democracy, Economic Development and Construction Act of 2009** contains three key provisions relevant to the urban/regional policy agenda: the establishment of single regional strategies (IRS); a statutory local economic assessment duty requiring all unitary local authorities and counties to prepare local economic strategies that require them to collaborate with neighbouring authorities; powers for groups of local authorities to establish **economic prosperity boards (EPBs)** or statutory city or sub-regions. The EPBs will have power over economic development and transport, in particular, and could become formal administrative bodies in their own right, eligible to apply for and directly receive public money for projects to benefit their city or sub-region.

There is no single piece of legislation in the United Kingdom covering urban policy. The UK government issued a *White Paper on Urban Policy* in 2000, and a parallel *White Paper on Rural Policy* in the same year. However, to understand urban policy in the United Kigdom, it is necessary to look at a wide range of legislation covering planning, housing, local government, regional and economic policy and policy towards deprived areas, which all impact on urban areas.

As for rural policies, DEFRA (Department for Environment, Food and Rural Affairs) was created in 2001 to broaden the focus of rural policy and to gather several rural functions under one department. The ***Rural Strategy***, published in 2004, reinforced the change to a more broadly based and regionally devolved rural policy. Initiatives, such as Rural Pathfinders, have been used to pilot some of these changes. The UK government's *Rural White Paper* (2000) obliged central government departments to put a rural proofing mechanism in place through which policy design and implementation were systematically checked for their impact on rural areas. An annual rural-proofing report is published by the Commission for Rural Communities which acts as an advisory body, commenting on the application of the mechanism in England. The Scottish government's position is that rural policy is mainstreamed. This means that all Cabinet Secretaries take account of the rural dimension in their strategies and policies.

Main implementation tools

Government spending has been shifting from direct business aid to broader support for the business environment. The two main instruments targeted at explicit regional policy goals are regional aid schemes (**Regional Selective Assistance [RSA]** in Scotland and Wales, and the **Grant for Business Investment** in England) and, in England, funding for the RDA. More generally, the UK government committed to rationalising business support schemes from 3 000 publicly funded schemes in 2006 to no more than 100 schemes by 2010. Related to this, the Business Link network is to become the primary route for advice on business support in England. A similar project, aimed at providing a primary portal for business advice, is being taken forward in Scotland.

Impacts of EU regional policy

For the 2007-13 programming period, the United Kingdom has been allocated around EUR 10.6 billion. The United Kingdom has aligned investment with Lisbon-related activities (EUR 4.5 billion for R&D, EUR 1.8 billion for entrepreneurship and SMEs and EUR 1.7 billion for labour and skill improvement). Under the regional aid guidelines, the cut in aid area population coverage from 30.7% to 23.9% was significant. The new map fits within the previously designated areas, but with much more of a patchwork quilt effect. Award ceilings for large projects have also been markedly reduced.

Budget structure

As far as regional aid is concerned, PSA offers in Scotland totalled GBP 86 million in 2007-08 and in Wales GBP 61.6 million, down from the previous year (end of the period), but higher than the 2004-05 figure. In England, the Selective Finance for Investment (SFIE) supports capital investment, training and productivity growth in the designated aid areas. The value of offers was GBP 74.8 million in 2007-08 and GBP 293.5 million over the four years to the end March 2008, suggesting broadly stable funding over the period. Regarding RDA allocations, these increased significantly until 2007 as part of the move towards a single pot approach to the RDA budgets. However, this increase came to an end in 2007 when tighter public spending meant that the RDA resource settlement for 2008-11 included a 5% real cut in RDA funding.

General economic development policy tends to focus on the south-east (*e.g.* cross-rail network, London Olympics, Thames Gateway project). Active regional policy targets the less developed regions, partly through regional aid provision, but also through the resources made available to the devolved administrations in Scotland, Wales and Northern Ireland and through RDA funding in England. The RDA funding reflects regional needs and opportunities but favours the worse-off areas. The per capita allocation to the north-east RDA was more than six times the south-east allocation in 2004.

The **Regional Funding Allocation exercise** attempts to draw together the budget plans of central ministries and regional bodies for the purpose of improving the efficiency of government spending by improving information on spending flows. Further streamlining may be achieved through more sub-regional collaboration in the context of functional economic areas including city-regions.

Governance structures

The principles of devolved strategy making and policy delivery, which began in 1999 with Scottish and Welsh devolution, continue. A directly elected Parliament has been established in Scotland, with directly elected assemblies in Wales and Northern Ireland, and London has its own assembly and mayor. Changes in the eight regions of England outside of London have been more complex. Institutions differ from one region to the next, and the number of administrative levels is not the same in urban and rural areas. Appointed regional assemblies, comprising about 100 people from local government, academic institutions, business and voluntary organisations, were to be abolished by 2010 and their functions passed to the RDAs. However, the new UK Coalition government has announced plans to abolish RDAs in England and give councils the power to form their own joint local authority-business-led local enterprise partnerships to replace the RDAs.

In England, some reorganisation was underway at the central level, with responsibility for achieving the government's regional development targets integrated in the BIS. Nine **regional ministers** had been appointed under the last government to strengthen links between central government and the regions in England. The new regional ministers and parliamentary committees were intended to boost the scrutiny of regional development interventions at the central level. The new Coalition government has not appointed any regional ministers as it plans to boost the role of elected local authorities in supporting local economic recovery and growth rather than through regional or national bodies.

The publication of the last UK government's *Sub-National Review* confirmed the policy competences and strategic overview of **regional development agencies (RDA)**. RDAs have an overview of business support provision, responsibility for research and development grants and business–university collaboration, and an increasingly broad strategic role. The RDAs are councils made up of local business representatives and members of public commissions, appointed by the central government. Although the RDAs were to assume power to set strategic priorities and allocate funding, they have to take central government policy objectives into account and meet performance targets set by central government. Under the previous government's proposals, the RDAs would be granted more power of strategic overview and would move increasingly from a project- to a programme-based approach, notably by leading the new IRS. RDAs were seen as crucial to vertical and horizontal co-ordination of regional policies, as well as having responsibility for managing the 2007-13 European Regional Development Fund programmes. The Business Link network, which provides advice to SMEs in England, has been brought under the RDAs with a view to encouraging regional rationalisation. The government was planning to simplify the system of targets used to assess the performance of RDAs, with a clear focus on economic growth objectives. The specific regional ministers supervised the activities of the RDAs with the development of regional parliamentary committees under reflection. All of these regional structures will disappear by 2011 under the new government's proposals to shift more power and financial autonomy to local councils, communities and neighbourhoods.

The central government's presence was strong, driven essentially by the weakness of sub-national government. In fact, the **Government Offices** in each of the nine English regions prepare regional emphasis documents addressed to the Treasury identifying priority areas for government spending in the regions. Their chief task, however, is to implement central government policies. These offices bring together the interests of 11 departments of national government in each region and are complemented by the

appointment of nine regional ministers. The new Coalition government is currently considering the case for abolishing all the Government Offices in England, having already announced its intention to abolish the Government Office for London.

The last government's plans were to draw sub-regional, urban, local or ward-levels into the administration of regional policy covering a broader range of issues to a greater extent, addressing the different factors of economic growth at the appropriate spatial level, with increasing attention paid to functional economic areas. Several instruments such as **local and multi-area agreements** as well as **urban or city-region strategies**, have been introduced to encourage local authorities to work together on the design/delivery of economic development policies. These are negotiated between regional government offices and local partnerships led by municipalities, and provide financial allocations to meet agreed objectives and output targets within locally initiated strategies. Sub-regional measures such as the Local Enterprise Growth Initiative (which aims to boost enterprises in deprived communities), and the Local Authority Business Growth Incentives Scheme (which rewards councils), were also introduced. In addition, the government has encouraged city-regions and sub-regions to consider setting up an Economic Development Company (EDC) or City Development Company (CDC) to promote local economic development and regeneration and address market failure. Under the new Coalition government, it is likely that the new local enterprise partnerships will supersede some of these instruments. The Local Authority Business Growth Initiative is being abolished though it remains possible for local authorities to establish EDCs or CDCs as these are local bodies that do not require any central government approval.

In Scotland, regional policy is a devolved responsibility. The Scottish government is structured around six director-generals supporting the Scottish Cabinet. The **Cabinet Secretary for Finance and Sustainable Growth (FSG)** takes responsibility for business, industry, transport, social enterprise and the voluntary sector. The Scottish government's focus is on ensuring long-term sustainable economic growth as set out in the **Government Economic Strategy (GES)** and the **Economic Recovery Plan** documents. To help deliver GES, the main economic development agencies, the **Scottish Enterprise** and **Highlands and Islands Enterprise** have been restructured to focus on supporting high-growth businesses and those of regional or national importance, along with investment in those economic sectors in which Scotland enjoys a competitive advantage. Local authorities play a complementary role with respect to business support services, ensuring greater cohesion in the provision of local economic and enterprise development and providing them with new opportunities to grow local business success. As part of this restructuring, aid schemes have been rationalised. In addition, reduced levels of Structural Funds contributed to more focused, streamlined approaches to implementation such as fewer regional operational programmes, regional/local programme bodies and a narrower range of beneficiaries.

Central and local governments in Scotland have a unique relationship embodied in the **Concordat** which describes a new way of working jointly towards an agreed set of national outcomes. Each local authority and its community planning partners have a Single Outcome Agreement (SOA) with central government. Economic recovery and economic development featured prominently in the current SOAs agreed in summer 2009. This approach enables a focus on the outcomes delivered through the investment of public resources and activity and ensures better alignment of activity and resources within the context of the Government Economic Strategy.

Scotland's geography, with its remote rural areas and inhabited islands, presents unique challenges within the UK context and it is therefore recognised that communities in these areas require a degree of tailored support. Various strands of support are available including through the Scottish Rural Development Programme (SRDP), a GBP 1.5 billion programme to develop all parts of rural Scotland. The LEADER scheme is one part of the SRDP. It provides a bottom-up approach to the delivery of innovative solutions to rural problems. LEADER local action groups cover all of the remote rural areas in Scotland. Local action groups are local partnerships of local public agencies working in the rural field and private socio-economic individuals or businesses.

Highlands and Islands Enterprise (HIE) has a Strengthening Communities remit, which recognises that social and economic development are complementary in achieving growth in remote, sparsely populated areas. HIE's Growth at the Edge/*Fas aig an Oir* initiative is undertaken across all of HIE's fragile communities and involves a higher rate of financial assistance, support to social enterprises and voluntary organisations with aspirations to grow into social enterprises, and selective assistance to small private businesses which have clear community as well as economic benefits. National and local regional interests come together twice a year in the Convention of Highlands and Islands.

In addition, **Scottish Enterprise** has a dedicated Rural Group which addresses economic development issues specific to rural communities across Scottish Enterprise's area of responsibility. HIE, which has significant and long-standing expertise in dealing with economic development issues in remote areas, is a partner in the Rural Group.

Performance monitoring: The UK government has recently funded the creation of a **Spatial Economics Research Centre** and a series of **regional observatories** to support a regional development approach. Under the new government it is likely that the regional observatory will continue.

Recent developments: The big debate in the UK regional policy is over the balance between regional and city-region/sub-regional approaches. The new Conservative Liberal Democrat Coalition government, elected in May 2010, is planning to abolish the regional development agencies and give at least part of their budgets to local authorities, which, if that happens, will place more importance on city and supra-local bodies to take a more strategic approach. The new government has said that the new local enterprise partnerships being set up to replace RDAs could take the form of the existing RDAs in areas where they are popular. This is, however, a matter for the local authorities in partnership with local businesses to decide. The change of government will lead to major changes in urban and regional policies in England, but at the time of writing, detailed policy statements were not available.

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United States

Table 2.32. **United States**

Country structure	• Federal, with 50 states. Local government structure differs between states.
Problem recognition	• Distressed communities and regions
Objectives	• Federal policies typically provide infrastructure or planning investment to distressed areas to generate employment or provide affordable housing options • Regional competitiveness, clusters, innovation, and sustainable development is an approach for some newer programmes
Legal/institutional framework	• No overarching framework, separate laws for different federal programmes • State-level regional policy making
Spatial orientation	
Urban policy framework	• No overarching framework, main entity responsible for policy is the Department of Housing and Urban Development
Rural policy framework	• No overarching framework, main entity responsible for policy is the Department of Agriculture
Major policy tools	• Grants for infrastructure and planning are the main policy tool • A few programmes seek to support regional economic development strategies, clusters and workforce development
Policy co-ordination at central level	• Limited but increasing co-ordination process at the federal level for regional development policy (*e.g.* co-ordination of seven federal agencies on energy-building systems related to regional innovation clusters)
Multi-level governance between national and sub-national levels	• Different federal departments and agencies may work with the state government or have their own regional representative offices, each with a different catchment area
Policy co-ordination at regional level (cross-sectoral)	• State governments may have inter-departmental committees for specific themes
Policy co-ordination at regional level (geographic)	• Special district governments • Economic Development Administration
Evaluation and monitoring	• Performed at programme level by each administering department or agency
Future directions (currently under discussion)	• Increasing accent on regional competitiveness, innovation, clusters and sustainable development in several federal programmes

General objectives of regional policy

The United States federal level does not have an over-arching regional policy; however, various programmes for economic development with a place-based approach tend to focus on areas of economic distress or reconversion. The definition of the spatial unit depends on the programme. In some cases the region is smaller than a city (a neighbourhood or community). However, there are examples of a regional approach with a much larger area. The most prominent example is the Appalachian Regional Commission, a federal-state partnership to support the economic development of the Appalachian region that encompasses parts of 13 contiguous states.

Legal/institutional frameworks of regional policy

As a federal country, economic development is generally the mandate of state governments. Therefore, federal policies with a place-based component seek to promote economic development in areas where the state governments face particular challenges. Current programmes largely tend to have an infrastructure focus, although planning investments are becoming an increasingly common component of federal, regional and state development policies. Recent years have witnessed a growth of programmes designed to promote regional competitiveness and innovation through business development, workforce development, and cluster initiatives. Sustainable development has also been given an increasing accent.

According to one estimate, economic development at the federal level in the United States is carried out through a constellation of approximately 180 programmes undertaken by nine federal departments and four agencies (Drabenstott, 2005, 2006). States, localities, and the private sector compliment the central government policies. These federal programmes address a diverse set of needs ranging from rural development to small business support to workforce adjustment, among others. No single department or agency oversees the range of policies.

More than nine different federal departments oversee the various economic development programmes of the United States. The three federal departments with the most explicit regional economic development focus include:

Department of Commerce, Economic Development Administration (EDA): Within the Department of Commerce, the EDA was established under the Public Works and Economic Development Act of 1965 to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the United States. The EDA's stated mission is "to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy".

Department of Housing and Urban Development (HUD): Following the U.S. Housing Act of 1937, the Department of Housing and Urban Development Act of 1965 created HUD as a Cabinet-level agency. HUD's mission is "to increase home ownership, support community development and increase access to affordable housing free from discrimination."

Department of Agriculture (USDA): The USDA began in the 19th century and its current mission is to "provide leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient

management". With respect to rural development, the mission for those programmes is: "to increase economic opportunity and improve the quality of life for all rural Americans".

Other regional economic development programmes come from a range of departments. For example, the Department of Interior finances support to Native Americans, including place-based support. The Department of Defense supports the development of a region receiving or losing an important defence-related installation. The Department of Labor, through the WIRED programme (Workforce Innovation in Regional Economic Development), has been promoting the development of regional strategy making for regions facing specific challenges.

Main implementation tools

EDA: There are a range of investment programmes managed by the EDA that provide targeted investments to support successful regional economic development in need-based eligible regions. The **Global Climate Change Mitigation Incentive Fund**, the **Public Works and Economic Development Program**, and the **Economic Adjustment Assistance Program** support infrastructure, technical and strategic planning, and revolving loan funds investments in qualifying need-based regions. In addition, the EDA funds programmes to improve the quality of information, strategies and leadership to support regional economic development through the **Research and National Technical Assistance Program**, the **Local Technical Assistance Program**, the **Planning Program**, and the **University Centre Economic Development Program**. The EDA also administers the **Trade Adjustment Assistance for Firms Program** to provide targeted assistance to help make selected firms more competitive in the global market. In FY 2008, those programmes totalled approximately USD 250 million, excluding the approximately USD 500 million supplemental appropriations for disaster-related assistance that year and USD 150 million in economic stimulus funding in FY 2009. To strengthen the EDA's focus on regional innovation clusters, the bureau's FY 2011 budget requests at least USD 75 million for that purpose.

HUD: There are wide arrays of programmes overseen by HUD that support regional development. Among them, the Community Development Block Grant and renewal communities/empowerment zone programmes are widely known for their impact on US regions. The **Community Development Block Grant (CDBG)** programme, established in 1974, is a flexible programme that provides communities with resources to address a wide range of community development needs. The programme provides annual grants on a formula basis to 1 209 grant units of local governments and states. The Office of Community Renewal works with the leaders of the HUD-designated **renewal communities, empowerment zones and enterprise communities** to help these areas achieve economic development with a USD 11 billion tax incentive package. In 1994, HUD and USDA designated 105 distressed communities as empowerment zones and enterprise communities (EZs and ECs). In 1999, the initiative was expanded through a second round of designations to include 15 new urban EZs, five new rural EZs, and 20 new rural ECs. In response to the actual and scheduled expiration of these programmes in the 2000s, the Community Renewal Tax Relief Act of 2000 expanded the initiative further, authorising 40 renewal communities (RCs) and nine more EZs. In 2001, HUD designated 28 RCs in urban areas and 12 in rural areas. HUD also designated eight urban Round III EZs and USDA designated two rural Round III EZs. These initiatives bring communities together through public and private partnerships to attract the necessary investment for revitalisation and sustainable economic and community development. The

federal government provides tax incentives, grants, loans, and technical assistance to spur private investment.

USDA: Within the USDA, rural development programmes cover a wide range of needs for regions that are considered rural. Basic services (water, waste disposal, telecommunications and electricity) are covered under **utilities programmes**. **Housing programmes** support not only housing but other facilities to meet community needs (including health, fire and police stations, and other community facilities). **Business programmes** support rural areas in efforts for job creation. **Community development programmes** have special initiatives for particular communities, such as the rural renewal communities and empowerment zones mentioned above.

Budget structure

There is no unified budget for regional and community economic development or tracking of overall spending in this area. One estimate revealed an average annual spending in the early 2000s of USD 188 billion for a broad definition of economic development (25% of federal spending). Ninety per cent of this spending is on infrastructure and education, leaving only one-tenth of this amount targeted to regional economic development (Drabenstott, 2005, 2006).

Governance structures

Each department or agency is independently managed. Different federal departments and agencies may work with the state government or have their own regional representative offices, each with a different catchment area. Some entities may have regional offices across the country to help manage their project portfolios. For example, the EDA has six regional offices and supports a grantee network of approximately 380 multi-county economic development districts. The USDA rural development programmes at federal level work in partnership with different sub-national public and non-profit/private organisations with 47 state offices and 800 local offices. In other cases, they may work directly with states, localities or other regional development organisations.

There is a limited but increasing co-ordination process at the federal level for regional development policy. For example, currently, the White House leads efforts to co-ordinate the assistance of seven federal agencies including the U.S. Department of Commerce in order to facilitate the development of an energy-building systems related to regional innovation clusters.

State governments may have inter-departmental committees for specific themes. **Special district governments** are frequently created for geographic co-ordination on specific themes (*e.g.* transport, education, and watershed) across municipalities, sometimes crossing state boundaries. Many are funded through special tax measures as well as fees and charges. The boards of such special districts are usually represented by the constituent municipal councils except for those of the school districts who are generally directly elected. The **Economic Development Administration** supports a network of multi-county economic development districts charged with developing and implementing a co-ordinated comprehensive economic development strategy for the region.

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ANNEX A

Profiles of EU Policy

Regional Policy of the European Union

Regional problems

The following challenges necessitated regional policy at EU level: economic and social disparities across member countries and their regions; the need to increase solidarity and competitiveness and promote growth and employment; and responses to new challenges such as globalisation, climate change and ageing.

General objectives of regional policy

EU regional policy took its current shape around 20 years ago, when the first regulation adopted in 1988 integrated existing financial instruments under what is now commonly called EU Cohesion Policy. Although the objective of reducing regional disparities was already present at the beginning of the European integration process in the late 1950s, by the end of the 1980s cohesion had become a fully fledged and explicit objective to encourage the integration of less developed regions and countries into the single market and encourage investment in EU priorities supporting growth and employment. Cohesion was officially enshrined as an objective in the Treaty of the European Union in 1993. With the integration of ten new countries in 2004, then of Bulgaria and Romania in 2007, this attempt at harmonisation had to be reinforced.

However, recent EU policy focuses on growth-oriented activities based on the Lisbon Strategy. Community Strategic Guidelines for Cohesion, adopted in 2006, require future Cohesion Policy to target resources in three priority areas (**Lisbon targeting**): improving the attractiveness of member countries, regions and cities; encouraging innovation, entrepreneurship, and the growth of the knowledge economy; and creating more and better jobs. Cohesion Policy 2007-13 regards the following activities as eligible for meeting the "Lisbon earmarking requirement" because they contribute to one of the 24 priorities of the Lisbon Strategy: research and technological development; innovation and entrepreneurship; knowledge-based society; transport; energy; environmental protection; adaptability of workers and firms; improving access to employment and sustainability; improving the social inclusion of less-favoured persons; and improving human capital. At least 60% of member countries' spending on the Convergence Objective and at least 75% of expenditure on the regional Competitiveness and Employment Objective must be assigned to these priorities.

In the current programming period of 2007-13, the main objectives are *i)* **convergence** (to promote growth-enhancing conditions and factors leading to real convergence for the least-developed member countries and regions); *ii)* **regional competitiveness and employment** (to reinforce regions' competitiveness and attractiveness as well as employment, by anticipating economic and social changes); and *iii)* **European territorial co-operation** (to reinforce co-operation at cross-border, trans-national and inter-regional levels).

Legal/institutional frameworks of regional policy

EU regional policy, managed by the Directorate General for Regional Policy at the European Commission (DG Regio), is delivered through the **Structural Funds** which redistributes part of member countries' budget contributions to the least prosperous ***regions*** of the EU, and through the **Cohesion Fund** which is directed to the least prosperous ***member countries.*** [1] There are five main principles guiding the implementation of Structural and Cohesion Fund policies: concentration on specific objectives, multi-annual programming, partnerships between the European Commission and competent authorities in the member countries, additionality (to prevent the substitution of national funds by EU resources) and proportionality (modulating the obligations of the member countries contingent on the total amount of expenditure on an operational prgoramme). EU Cohesion Policy mobilises traditional regional policy instruments: infrastructure construction, training and human resources, and incentives for productive investments. Since 1988, there have been three programming periods (1989-93, 1994-99, 2000-06) and a fourth is currently in progress (2007-13).

The EU Council and EU Parliament take decisions on budgets and rules of regional policy based on the proposals of the European Commission. Following very close co-operation with member countries, the European Commission proposed the **Community Strategic Guidelines on Cohesion Policy**, which were officially adopted by the Council Decision of 6 October 2006. The priorities include the improved attractiveness of cities, regions and member countries; the promotion of innovation, entrepreneurial activities and knowledge-based economic development; and the creation of more and higher valued employment.

Each member country presents a **National Strategic Reference Framework (NSRF)** conform to the Community Strategic Guidelines, and which will serve as a benchmark for the programming of funds. The NSRF is a programming instrument, instead of a management instrument. It defines policy priorities whilst suggesting key implementation elements. After the adoption of the Community Strategic Guidelines by the Council of the European Union, the member country has five months in which to send the NSRF. Once it is received, the Commission then has three months to comment on it. Next, the Commission takes a decision on the following points of the NSRF of each member country: the list of operational programmes, the contribution from each fund to each programme, and the level of expenditure to guarantee the Convergence Objective's principle of additionality.

Rural development policy, managed by the Directorate General for Agriculture, is based on a different framework than Cohesion Policy: EU Strategic Guidelines for Rural Development, Council Regulation on Support of Rural Development by the European Agricultural Fund for Rural Development (EAFRD) and the Commission Implementing Regulation. The main priorities include improving the competitiveness of the agricultural sector (Axis 1), enhancing the environment and the countryside (Axis 2) and enhancing the quality of life in rural areas and promoting the diversification of economic activities (Axis 3). The three thematic axes are complemented by a "methodological" axis dedicated to the LEADER approach which promotes activities of local action groups (Leader Axis). Member countries adopt the National Strategy Plan and Rural Development Programme. The **National Strategy Plan** translates EU priorities to the member country's domestic situation and ensures complementarities with Cohesion Policy. The **National or Regional Rural Development Programme** articulates the four axes through different measures. The EAFRD has been allocated a budget of

EUR 96.3 billion for the period of 2007-13, 20% of which is dedicated to the Common Agricultural Policy (CAP). The fund may finance rural development programmes up to a ceiling of 4% of the total amount for each programme.

Main implementation tools

Member countries' **operational programmes (OPs)** cover the period from 1 January 2007 to 31 December 2013. The Commission evaluates each programme in order to determine if it contributes to the objectives and priorities of the Community Strategic Guidelines and the NSRF. The OPs must include an analysis of the eligible area (strengths and weaknesses); a justification of the priorities retained (in terms of Community Strategic Guidelines and the NSRF); the specific objectives of the key priorities; funding plans; the implementation of the programmes (designating management, auditing and certification authorities; a description of the evaluation and follow-up systems); and an indicative list of large projects (environmental projects which exceed EUR 25 million and other projects which exceed EUR 50 million). At least 20% of the public expenditures must be dedicated to its key priority. There are thematic OPs (which cover national territory targeted at one theme) and regional OPs. The state (and the authority designated by the state such as a regional government) must present its OPs to the Commission no later than five months after the adoption of the Community Strategic Guidelines. The Commission adopts each programme no later than four months after it is formally presented. However, the two decisions can nevertheless be taken simultaneously. Once adopted, programmes can be revised at the request of the member country or by the Commission, with the agreement of the member country. The OPs are the only programming and management tool and are more strategic than they used to be. The programme is less detailed and the amounts involved are mentioned at a priority rather than an action level. Details concerning management as well as project selection criteria are defined at regional and national level and do not feature in the programme. The member country therefore has a higher level of autonomy to implement its programme. As of 2009, 316 programmes had been established.

A **management authority** (the state or the authority designated by the state) is responsible for the efficient, effective and proper management and implementation of an operational programme. It delivers an annual performance report to the Commission by 30 June at the latest. A final report must also be delivered no later than 31 March 2017. A **certification authority** draws up and sends the Commission a certified inventory concerning expenditure and requests for payment. It must also certify the accuracy and the compliance of expenditure in terms of Community and national rules. It takes charge of accounting and assures the recovery of Community credits in the case of irregularities. An **auditing authority** is an operationally independent body designated by the member country for each operational programme. It is in charge of audits which are carried out on the basis of an appropriate sample, writes up annual control reports and offers an opinion on the audits carried out. The same authority can be assigned to a number of operational programmes. **A follow-up committee (or monitoring committee)**, created for each OP by the member country and presided over by a representative of the member country or the management authority, assures the efficiency and the quality of the implementation of the operational programme.

Budget structure

Policy objectives are financed by the European Regional Development Fund (ERDF), the European Social Fund (ESF) and the Cohesion Fund. In the programming period of 2007-13, the available resources amount to around EUR 347 410 million (in 2007 prices), which is 35.7% of the total EU budget. There are cases where the ERDF and the ESF (and the Cohesion Fund combined) are termed as "Structural Funds". Depending on the policy objectives and fund, target areas and projects to be financed are defined (Table A.1). Based on factors such as the eligible population, regional and national prosperity, and the rate of unemployment, the fund is allocated across the member countries (Figure A.1). In total, 81.5% is allocated for the Convergence Objective, followed by the regional Competitiveness and Employment Objective (16%) and European Territorial Co-operation objective (2.5%). Member countries decide the regional allocation.

Table A.1. **Fund allocation by objectives**

Objectives	Structural Funds			Targeted areas
Convergence	ERDF	ESF	Cohesion Fund	NUTS 2 regions whose per capita GDP is less than 75% of the Community average (ERDF and ESF) Member country whose per capita GNI is below 90% of the community average (Cohesion Fund)
	EUR 199.3 billion+EUR 14 billion (84 regions and 16 phasing-out regions)		EUR 69.5 billion	EUR 282.8 billion (81.5%)
Regional Competitiveness & Employment	ERDF	ESF	–	All the regions not covered by the Convergence Objective (NUTS 1 or NUTS 2 regions according to the member country)
	EUR 43.6 billion+EUR 11.4 billion (155 regions and 13 phasing-in regions)		–	EUR 55 billion (16%)
European Territorial Co-operation	ERDF	–	–	Cross-border, trans-national and inter-regional co-operation area
	EUR 8.7 billion			EUR 8.7 billion (2.5%)
Projects	Infrastructure, innovation, investment, etc.	Job training, employment support, etc.	Transport infrastructure, environment	Total 347.41 (35.7% of total EU budget of 2007-13)

Note: The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

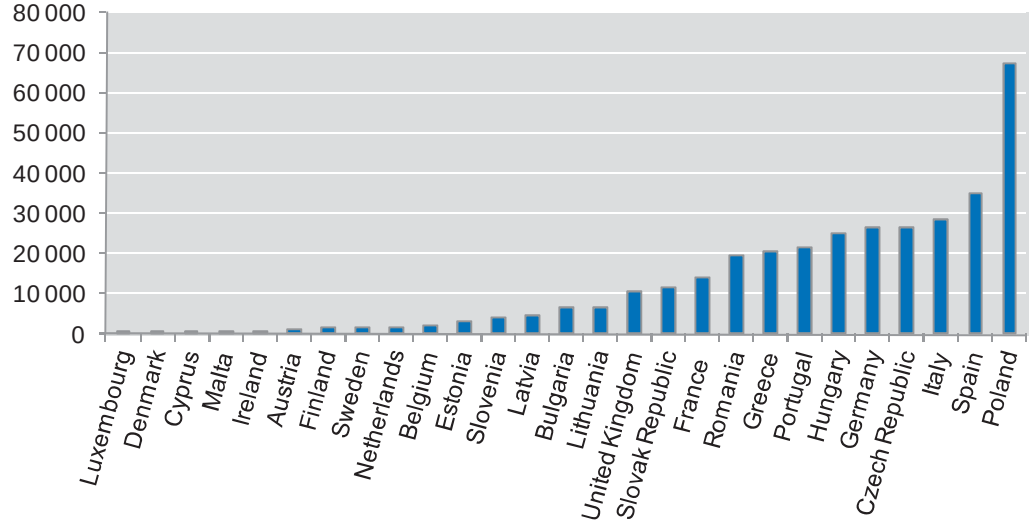
Source: OECD adaptation based on European Union (2007), "Cohesion Policy 2007-13".

The **European Regional Development Fund (ERDF)** is to promote investment and reduce the main regional imbalances of the European Union. Financing is aimed primarily at research, innovation, environmental challenges and risk prevention, whilst infrastructural investment continues to play an important role, notably in the least

developed areas. The **European Social Fund (ESF)** contributes to the Union's economic and social policy by improving employment and the possibilities of employment. To this effect, it supports member countries' actions in improving the adaptability of workers and enterprises, increasing access to employment, reinforcing the social inclusion of disadvantaged people, combatting discrimination, increasing and improving investment in human capital and strengthening the capacity and efficiency of administrations and public services. The **Cohesion Fund** aims to strengthen economic and social cohesion in the Community, in the interest of promoting sustainable development, particularly in the domains of trans-European transport networks (TEN-T) and environmental protection. It represents a third of the budget allocation given to new member countries. Some 167.2 million Europeans (34.4% of the EU-27 population) live in a region aided by the Cohesion Fund.

Figure A.1. **Allocation of EU funding by member countries**

Millions EUR



Source: OECD adaptation based on European Union (2007), "Cohesion Policy 2007-13".

The "One Operational Programme = one of the three objectives = one fund" principle was introduced in order to simplify the management of the Funds. The only exception is that the ERDF and the Cohesion Fund participate together for infrastructure and environmental programmes. The budgetary commitments related to OPs are delivered by annual instalments concerning each fund and each objective. Payments by the Commission are made in three steps: pre-financing, interim payments and payment of the final balance. The Commission pledges the first annual instalment before the adoption of the operational programme. The rate of pre-financing is 7.5% for the EU-15 and 9-10.5% for the EU-12, spreading over two or three years. Thereafter, it pledges the instalments by 30 April of each year. Part of the budget is automatically released by the Commission if it has not been used or no request for payment has been received by the end of the second year following the budgetary commitment (**N+2 de-commitment rule**).[2]

There are ceilings for co-financing rates. Maximum co-financing rates are: Convergence (between 75% and 85%), Regional Competitiveness and Employment (between 50% and 85%), European Territorial Co-operation (between 75% and 85%), and Cohesion Funds (85%) (Table A.2).

Table A.2. **Maximum co-financing rates**

	ERDF/ESF		Cohesion Fund
A: Member country with 2001-03 average GDP lower than 85% of the EU27 average	85%		
B: Member country not included in A but receiving Cohesion Funds (only Spain)	Convergence area plus phasing-in area of Regional Competitiveness and Employment: 80%	Regional Competitiveness and Employment area excluding phasing-in area: 50%	85%
C: Member country not included in A and B (non-Cohesion-Fund-receiving countries)	Convergence area: 75%	Regional Competitiveness and Employment: 50%	–
D: Outermost regions (only in France, Portugal and Spain)	85%		–

Source: OECD adaptation based on European Union (2007), "Cohesion Policy 2007-13".

Governance structures

In the 2007-13 programming period, member countries and regions are accorded more confidence when they are the main financial contributors to development programmes. Expenditure eligibility rules are now national rather than Community based. Once the Commission approves the overall strategy, it is often the regions that have the responsibility for key decisions such as project selection and management. The principle of proportionality modulated the obligations attributed to member countries (*e.g.* evaluation, auditing) contingent on the total amount of expenditure on an operational programme.

Project monitoring: Documents and activities are evaluated in order to improve the quality, efficiency and coherence of their intervention. Evaluations are carried out by independent evaluators and their results are made public. The regulation for the 2007-13 programming period offers greater flexibility by reducing the number of obligatory evaluations. While *ex ante* evaluation is needed for each Convergence Objective programme, member countries choose the level of evaluation according to their needs (programme, theme, funds) for each of the other two objective programmes. Mid-term evaluation is carried out on a needs basis. In 2000-06, the Commission allocated a certain sum to the most effective programme in the mid-term (performance reserve system). In 2007-13, each state can take a direct initiative increasing a national performance reserve to 3% of its total allocation for each of the Convergence and Regional Competitiveness and Employment Objectives.

For strategic follow-up of the Cohesion Policy, member countries had to submit a **Strategic Report** to the European Commission to address the contribution of the OPs to the Cohesion Policy or the Commission's Strategic Guidelines before the end of 2009, then again before the end of 2012. The Commission had to prepare the Commission's Strategic Report summarising member countries' strategic reports or a Cohesion Report before 1 April 2010, then again in 2013. Within the framework of the Lisbon Strategy,

member countries have adopted national reform programmes (NRPs). As a follow-up to the Lisbon Strategy, for the first time in 2007, annual reports on the NRP implementation had to include a section explaining the contribution of the OPs to the implementation of the NRP. The European Commission presents the annual report to the European Council summarising member countries' annual reports.

Notes

1. This is why EU regional policy is often called "Structural Policy" or "Cohesion Policy".
2. For Greece, Portugal and member states which joined the EU after 2004 (Bulgaria, the Czech Republic, Cyprus, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, Slovenia and the Slovak Republic), the delay is fixed for the end of the third year (n+3) between 2007 and 2010 in respect of their programmes.

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ANNEX B

Comparative Analysis of Cross-border Co-operation in OECD Member Countries[1]

Cross-border regions come to the fore under increasingly globalised markets. Their peripheral and remote location from the national centre has tended to leave these regions under-developed. Legal and institutional factors have erected barriers to the smooth flow of people and goods across borders in order to protect domestic (mainly security) interests. However, with increasing pressure for free trade and integrated markets, borders are now increasingly being redefined as bridges or communication channels, rather than barriers. This brings new economic opportunities for cross-border regions.

OECD member countries have accumulated experiences, which could provide useful lessons for cross-border co-operation policies (Table B.1). The Territorial Development Policy Committee has conducted three cross-border regional reviews including Öresund (Denmark and Sweden) in 2003, Vienna-Bratislava (Austria and the Slovak Republic) in 2003, and the Pan Yellow Sea Region (China, Japan and Korea) in 2009. Other than those reviews, for example, *OECD Territorial Reviews* such as Luxembourg (2007) and the *Monitoring Review of Switzerland* (forthcoming) pay special attention to cross-border co-operation.

There are different degrees of border openness across Europe and North America.[2] In the United States-Canada case, tightened border control after the "9/11" attack on the United States has hampered the smooth cross-border flow of people and goods. In the United States-Mexico case, other issues such as illegal immigration and drug trafficking have made governments fearful of open borders. In Europe, many barriers to the movement of people and goods have been lifted through measures such as the Schengen Convention. In Europe, virtually all border regions are involved in some types of cross-border co-operation activity. There are more than 70 such arrangements, operating under names like "Euroregions" or "Working Communities" (Perkmann, 2007).

In this annex we introduce and compare cross-border co-operation in Europe and North America. Our main objective is to understand the different types of cross-border co-operation, using several case studies to identify common factors that contribute to sustainable cross-border co-operation.

Europe: rules and incentives for cross-border co-operation

Given the large number of small countries contained within the region, Europe has accumulated many rules guiding cross-border transactions and exchange. The free movement of goods and people was first envisaged in the Treaty of Rome (1957). In the 1960s and 1970s, various bi-lateral and multi-lateral governmental commissions were established to deal with issues such as local cross-border spatial planning and transport policy. As early as 1971, the Association of European Border Regions (AEBR) was founded by ten border regions. On the initiative of the Council of Europe, 20 European countries concluded the Convention of Madrid (1980), a framework convention which defined cross-border co-operation as a "spontaneous form of networking between local authorities" of neighbouring countries.[3] The introduction of the single market in 1993 based on the 1986 Single European Act, the progressive implementation of the 1985 Schengen Agreement and the 1990 Schengen Convention, all pushed ahead the economic integration of border regions. For example, the European Union's *acquis communautaire*[4] defines the status of cross-border commuters, requiring border workers to be subject to the laws of their country of employment. This entitles them to the same access to jobs, working conditions and certain social benefits as the nationals of their country of employment. The *OECD Tax Convention on Income and Capital*, on which

most bi-lateral taxation agreements are based in OECD member countries, states that it is the country of residence that has the right to tax all workers. The EU also set uniform standards for the different education systems of member countries in order to allow employers to assess a foreign employee's skills. EU regulations include rules for mutual recognition of qualifications and training, such as official authorisations, licenses and other evidence of formal qualifications regulated by law or industrial requirements.[5] On a more practical level, student exchange is actively promoted, with EU funding for student exchange programmes and general agreement among the Nordic countries in 1996 on cost reimbursements to promote student exchange.

Table B.1. **Examples of cross-border regions**

Region	Countries	Population
Europe		
Vienna-Bratislava core region	Austria, Slovak Republic	2 922 000
Baltic Sea Region/Finland Gulf	Belarus, Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Norway, Poland, Russia, Sweden	150 000 000
Öresund Region	Denmark, Sweden	3 555 000
RegioTriRhena	France, Germany, Switzerland	2 200 000
Meuse-Rhine Euroregion	Belgium, Germany, Netherlands	3 794 000
Carpathian Euroregion	Hungary, Poland, Romania, Slovak Republic, Ukraine	16 000 000
Frankfurt-Slubice	Germany, Poland	1 000 000
Pyrenées Work Community	Andorra, France, Spain	17 800 000
Grande Région (Saarland, Rheinland-Pfalz, Luxembourg, Lorraine, Région Wallonne)	Belgium, France, Germany, Luxembourg	11 359 815
Americas		
Detroit-Windsor Metropolitan Region	Canada, United States	4 775 000
San Diego-Tijuana cross-border region	Mexico, United States	4 072 200
El Paso-Ciudad Juarez	Mexico, United States	1 800 000
Puerto Iguazu-Foz do Iguaçu-Ciudad del Este	Argentina, Brazil, Paraguay	700 000
Tabatinga-Leticia-Santa Rosa	Brazil, Colombia, Peru	100 000
Asia		
Pan Yellow Sea Region	China, Japan, Korea	256 000 000
SiJoRi Growth Triangle (Singapore, Johor, Riau Archipelago)	Indonesia, Malaysia, Singapore	34 000 000
Indonesia-Malaysia-Thailand Growth Triangle (IMT-GT)	Indonesia, Malaysia, Thailand	19 000 000
Emerald Triangle	Cambodia, Laos, Thailand	4 365 000
East ASEAN Growth Area (BIMP-EAGA)	Brunei Darussalam, Indonesia, Malaysia, Philippines	57 500 000

Source: OECD adaptation based on Donovan, M. (forthcoming), "Barriers and Breakthroughs for Cross-Border Co-operation: The Case of the Pan Yellow Sea Region", in *Reshaping Regional Policy in Korea*, edited by Richardson, H.W., S-C Choe and C-H.C. Bae, Elgar Publishers.

The introduction of the Inter-regional Co-operation Programme (INTERREG) had a considerable impact on the development trajectory of most cross-border co-operation initiatives in Europe (Box B.1). Cross-border initiatives have become increasingly embedded in highly institutionalised networks of public administration from the local, regional, and central to the European level. Formal or semi-formal organisations are often necessary for co-ordinating activities. Because of co-ordination difficulties and accompanying time delays in the implementation of a project, local networks have increased the importance in the delivery of INTERREG-funded projects. Some cases are introduced in this section, two of which are rather geographically limited (Boxes B.2 and B.3), and one of which is large in terms of geographic scale (Box B.4).

Box B.1. **INTERREG: an EU cross-border programme**

The main goal of INTERREG initiatives is to ensure that national borders are not a barrier to the balanced development and integration of the European territory. According to the EU, the isolation of border areas has been two-fold. Firstly, borders cut off border areas from each other economically and socially and hinder the coherent management of ecosystems. Secondly, borders have been neglected under national policy, and as a result their economies have tended to become peripheral within national boundaries.

Within this context, the EU began the INTERREG programme in 1990, gradually expanding the focus area (INTERREG I: 1990-1993, INTERREG II: 1994-1999, INTERREG III: 2000-06).

Under the present Cohesion Policy 2007-13, the INTERREG programme comes under European Territorial Co-operation. It is funded by the European Regional Development Fund (ERDF). The Cohesion Policy 2007-13 has a budget of EUR 308 billion (in 2004 prices). Of this, 2.5% is allocated to European Territorial Co-operation Objectives and 1.8% is for cross-border co-operation.

For cross-border co-operation, NUTS 3[1] level regions are eligible along all the land-based internal borders and some external borders, and along maritime borders separated by a maximum distance of 150 kilometres. Cross-border co-operation embraces a larger geographical area than INTERREG III, mainly as regards maritime co-operation (EU, 2007). According to the regulation governing the ERDF, assistance is focused on the development of cross-border economic, social and environmental activities through joint strategies for sustainable territorial development, and primarily:

- by encouraging entrepreneurship, in particular the development of SMEs, tourism, culture and cross-border trade;
- by encouraging and improving the joint protection and management of natural and cultural resources, as well as the prevention of natural and technological risks;
- by supporting links between urban and rural areas;
- by reducing isolation through improved access to transport, information and communication networks and services, and cross-border water, waste and energy systems and facilities;
- by developing collaboration, capacity and joint use of infrastructure, in particular in sectors such as health, culture, tourism and education.

In addition, the ERDF may help promote legal and administrative co-operation, the integration of cross-border labour markets, local employment initiatives, gender equality and equal opportunities, training and social inclusion, and sharing of human resources and facilities for R&D. Once approved, then a co-financing ceiling rate of between 75% and 85% is applied. Thanks to the programme, there are currently hardly any border areas inside the EU in which public authorities are not involved in some kind of co-operative initiative with their counterparts.

1. The Nomenclature Units for Territorial Statistics (NUTS) is a geocode standard for referencing the subdivisions of countries for statistical purposes. For each EU member country, a hierarchy of three NUTS levels is established by Eurostat and is instrumental in the EU's Structural Fund delivery mechanism. Though the NUTS regions are based on existing national administrative subdivisions, the subdivisions in some levels do not necessarily correspond to administrative divisions within the country. Depending on their size, some countries do not have all three levels. The following thresholds are used as guidelines for establishing the regions, but they are not applied rigidly: NUTS 1 region (3 million to 7 million inhabitants), NUTS 2 region (800 000 to 3 million inhabitants) and NUTS 3 region (150 000 to 800 000 inhabitants).

Source: EU (European Union) (n.d.), *http://ec.europa.eu/regional_policy/interreg3/*, accessed 3 May 2010.

Box B.2. **Case study: Öresund**

The Öresund Region has a history of Danish and Swedish interaction that is several centuries old. Fifty years of a free Nordic labour market and about a decade of free movement of people within the EU was not able to achieve a high level of integration across both sides of the Örseund Strait, even though Nordic cross-border ties reduced the need for bi-lateral co-operation during the 1970 and 1980s when cross-border networks in mainland Europe were still in an embryonic state. For example, at the beginning of the 1980s, Öresundkontakt was founded as a contact for firms that wanted to settle in the region. The primary impetus for economic integration within this region came from researchers, policy makers and some business leaders who recognised the significant economic potential of greater economic integration. The main regional players throughout the integration process have been the Greater Copenhagen Authority (now the Capital Region of Denmark) in the metropolitan area of Copenhagen and Region Skane in the metropolitan area of Skane, both of which were founded in 1999.

A more concrete political project began in 1991 when the Danish and Swedish governments finally approved and signed an agreement to build a combined railway and motorway bridge. The overall goal of the Öresund cross-border project is to create and consolidate a functional area of 3.5 million inhabitants – considerably bigger than Stockholm, Oslo or Helsinki – and achieve economies of scale and scope through regional integration. In 1994, the Danish and Swedish governments agreed to work out a common environmental programme for the Öresund Region. This sets regional environmental quality goals and aims to strengthen co-ordination between Denmark and Sweden on environmental matters, with the long-term aim of making the region one of the cleanest city-regions in Europe. In 1999, for the first time, the two national governments expressed their common vision and objectives in the joint document *Öresund: A Region is Born*. The Öresund project is compatible with both the Danish strategy of making the national capital a competitive urban pole in northern Europe and the Swedish goal of becoming a southern gateway to continental Europe. The opening of a bridge between Copenhagen (Denmark) and the neighbouring Malmö (Sweden) in July 2000 increased trade and exchange between the two significant regions of Zealand (Denmark) and Skane (Sweden).[1] The bridge has had a direct impact on movement patterns in the region. For example, Danes are moving to live in Skane and commute to Denmark. The significance of the project is reflected not only in the regional policy emphasis given to Öresund in both countries, but also in the EU's support, notably through INTERREG, which considers Öresund a flagship programme and has funded it since 1996.

The Öresund Committee, established in 1992, is the most prominent effort to build regional co-operation and networking across the Öresund among local and regional politicians. The committee allows for political cross-border co-operation among local and regional authorities on both sides of the Öresund. It is financed by members and hosts the secretariat for the EU INTERREG programme. The two national governments have an observatory role. The committee meets at least twice a year, and the executive committee at least four times a year. The annual work programme sets the framework, and the executive committee can establish *ad hoc* political working groups. The goal is to enhance the integrated development of the region and cross-border co-operation on all levels. The committee functions as a political platform, a meeting place, catalyst and network builder, rather than as a regional government. In 2007, the institutional structure of the Öresund Committee was strengthened, and policy formulation was given increased emphasis. This resulted in a strategic vision for the Öresund in 2008 that will lead to a common development strategy in the coming years. The committee operates as a loosely bound umbrella organisation covering and connecting the many diverse cross-border activities.

Box B.2. **Case study: Öresund** (*continued*)

Academic co-operation and cluster-making in the Öresund Region is very advanced. Öresund has a concentration of firms in adjacent sectors, research laboratories and universities. The Öresund Region includes 12 universities, around 150 000 students, 12 000 researchers and 6 500 PhD students. Fourteen higher education institutions in the region participate in the Öresund University, a voluntary co-operation between most universities on both sides of the Öresund which has been operating since 1997. The basic idea is to achieve specialisation through synergy and the common use of university resources. The institution is not only a leading actor in formal scientific research and education, but also in the creation of an institution to promote informal networking activities and information sharing for economic activities. Working in collaboration with researchers, business leaders and policy makers throughout the region, the university has helped identify critical growth clusters and facilitate the development of networking associations in each of those clusters. These include medical and pharmaceutical, IT, food and environment businesses. The Medicon Valley Academy, IT Öresund, Öresund Food Network, and Öresund Environment, established with the help of Öresund University, all play an important role in promoting networking and integration across the region.[2] In addition to helping set up networking organisations in each sector, the Öresund University and the other relevant regional actors have also set up an organisation to help build links across the multiple industry clusters. This initiative, called the Öresund Science Region, was formally launched in 2001 and brings together four sectoral organisations. The umbrella organisation aims to promote integration in the cross-border region and provides a strong basis for ensuring extensive networking. Thanks to their efforts, the Öresund Science Region recently received a RegioStar EU award.

The commitment of the national governments is especially apparent in labour market policy. Ministers from both the Danish and Swedish governments have the unique responsibility for enhancing an integrated, well-functioning labour market in the region. Öresund Direct was created on the joint initiative of both governments to provide access to information on job opportunities on either side of the strait. It also provides comprehensive and practical information about all aspects of moving and commuting: taxes, housing, social security, living costs, education and other related matters. There is a call centre on the Danish side and a one-stop information office in Malmö. An internet site spans the two sides. The one-stop shop in Malmö is run as a partnership of different public authorities, including the Public Employment Office, Social Insurance Office, county administration in Skane and the Tax Authority in Malmö City. The efficiency and effectiveness of the Malmö office is ensured through cost-sharing and close, continuous contact with the mother organisation by councillors from respective authorities.

Businesses in the region have also organised a variety of cross-border associations to promote knowledge and networking activities. These include the Öresund Business Council, the Öresund Chamber of Commerce, Business-Bridge and Venture-Cup Öresund. A project for integrating urban development and transport infrastructure, called IBU (Infrastructure and Urban Development), is also being promoted. This project will explore how to create a sustainable transport system and how to develop the Öresund Region in a sustainable way. It will also look at several possible development scenarios for the region that will eventually form the basis for a common Öresund Regional Development Strategy.

The Öresund Region remains ahead of most cross-border initiatives in Europe in its creation of a steering committee, its fiscal agreements for the bridge project and the co-operation of higher education institutions. The nearly 14 500 commuters from southern Sweden to the Copenhagen Capital Region represents a sevenfold increase in the ten years between 1997 and 2007.[3] As population and economic integration both increase, it is estimated that the number of daily commuters across Öresund will increase from 17 600 individuals per day in 2007 to approximately 56 000 in 2025.

Box B.2. **Case study: Öresund** (*continued*)

However, there appear to be relatively few cross-Öresund initiatives by civil society, at least on a formal institutional level. The seeming lack of involvement by civil society organisation activities may imply that efforts to promote cross-border activities are rather top down, and not rooted in the needs of civil society.

1. The bridge is managed by the bi-national Öresund Bridge Consortium.

2. With the help of Öresund University, Medicon Valley Academy (MVA) started as a publicly funded initiative in 1997. It is a regional and bi-national network organisation for developing a medical and pharmaceutical cluster. It organises conferences, workshops and seminars and provides a PhD programme. IT Öresund, founded in 1999, is a co-operative organisation for Danish and Swedish actors in the IT industry and for developing an IT cluster. It markets the cluster both regionally and globally and connects new ideas to venture capital to help create new firms. Öresund Food Network aims to create synergies between public and private research and among companies in the agro-alimentary sector. Öresund Environment, established in 2000, is attempting to build links between research, the business community and the public sector in the environment field.

3. Cross-border commuting traffic remains limited, although it has risen steeply in the last decade, and the Öresund Region is not yet an integrated and functional labour market. The number of cross-border commuters represents around 0.65% of the regional labour force in Copenhagen, a modest share compared to domestic commuting and other cross-border regions in Europe.

Source: OECD (2009), *OECD Territorial Reviews: Copenhagen, Denmark*, OECD Publishing, Paris; OECD (2003), *OECD Territorial Reviews: Öresund, Denmark/Sweden*, OECD Publishing, Paris; and the websites of cross-border organisations mentioned in the text.

Box B.3. **Case study: other examples of European cross-border co-operation**

Regio TriRhena (France-Germany-Switzerland): Regio TriRhena is located right in the heart of Europe, covering parts of southern Alsace (France) and southern Baden (Germany) and north-western Switzerland. This area is the southern part of the EuroRegion Upper Rhine, which entitles it to take part in the INTERREG programmes. The area is characterised by strong economic interdependence based on complementarities. The pool of skilled labour, excellent transport infrastructure and cluster effects all integrate the overall area. Companies' needs for specialised labour, especially in the chemical and pharmaceutical sectors, combined with the wage differences among the three countries, have facilitated cross-border commuting and migration to neighbouring countries.

The large cross-border labour migration and high degree of functional integration have been made possible by various cross-border agreements. The region has a long history of cross-border co-operation dating back to the Central Commission for Navigation on the Rhine River created at the Congress of Vienna in 1815. This grew out of national governments' initiatives around common concerns about transport and the environment of the Rhine River. General cross-border co-operation was officially launched in 1975 when an agreement between the French, German and Swiss governments to formalise cross-border activities came into force. This was one of the first inter-governmental agreements on cross-border co-operation in Europe. The result of this agreement, the Bonn Treaty, was the French-German-Swiss Government Commission, which consists of three national delegations. It co-ordinates economic, transport, environmental, cultural and media policies. These regulatory elements still dominate overall cross-border co-operation at the national level. In 1998, the Upper Rhine Region introduced a cross-border "parliament", the Upper Rhine Council, with 73 elected representatives.

Box B.3. **Case study: other examples of European cross-border co-operation** (*continued*)

Local-level cross-border co-operation dates back to 1963 in the City of Basel when a group of business, university and political representatives founded the Regio Basiliensis Association. The aim was to unify the Greater Basel Area, including southern Alsace and southern Baden, to actualise great development potential. These regional associations formed a co-ordination committee that later decided to create the Council of the RegioTriRhena in 1995, a 60-member council bringing together representatives of cities, municipalities, economic organisations and universities that meets at least twice a year. The council operates in parallel and complementary to the nationally agreed Upper Rhine Council that covers a much bigger area and consists of delegations from the three countries.[1] Today cross-border co-operation in the region covers many tasks, involves diverse entities and has a shared vision. This area is an example of the most developed cross-border co-operation in Europe.

Vienna-Bratislava (Austria-Slovak Republic): Strictly separated until 1989 by the Iron Curtain, the Vienna-Bratislava Region embarked on a path of rapid integration after the opening of the border. This process has proved largely beneficial for both sides. Only 55 kilometres apart, the two cities are the closest capitals in the world. Most indicators show regional convergence. While nominal GDP per capita in Bratislava was less than 20% of Vienna's in 1995, it approached 30% in 2002 and is supposed to reach around 50% in 2015. The enlargement of the EU and the ensuing integration of the Central and Eastern European markets into Western Europe directly affect the region. With a surface area of around 30 000 square kilometres, 4.5 million (2001) inhabitants and an economy the size of Ireland's, the region has the potential to develop from a periphery of the EU into a major hub in Central Europe.

One cross-border activity that has been particularly stepped up over the last half decade has been the collaboration between the industrial parks in Vienna and Bratislava. With support from the EU programme, industrial parks in Bratislava collaborate with the Austrian Technology and Innovation Centre in Eisenstaedt. Inward investment agencies in Vienna and Bratislava have experimented with jointly attracting multi-national companies to the area. There are joint actions planned between the Bio-Centre and automobile cluster projects in Vienna and Slovakian partners. In terms of creating a learning region, REGILON is a platform for co-operation among universities and R&D institutions from bordering regions of Austria, the Slovak Republic, the Czech Republic and Hungary. It focuses on facilitating collaboration with business in other regions and incubating collaborative projects and joint events.

In this region, EU programmes such as INTERREG have developed incentives for cross-border regions to co-operate, but clarifying policy priorities and building sustainable cross-border institutions are still in their early stages. The first policy challenge is integrating and enlarging a cross-border labour market. A cross-border labour market policy is still in its infancy and is mainly pursued in connection with the INTERREG initiative. The second policy challenge is to build a learning region with a highly educated workforce and a dense network of firms and clusters. The third issue is the transport infrastructure, which tends to be slow, unreliable, disrupted and badly connected to national and international networks.

There have been other obstacles to establishing regional cross-border institutions in this region. Firstly, though both regions have a common history, the separation of the last 40 years has left a weak cross-border network. Secondly, institutional differences between Austria and the Slovak Republic are quite significant, and there are no supra-regional integration frameworks. Thirdly, the region lacks large infrastructure to symbolise integration, such as the bridge that links southern Sweden to eastern Denmark (Öresund Bridge, see Box B.2). Neither region has set up a stable and formalised cross-border governance framework.

Box B.3. **Case study: other European cross-border examples** (*continued*)

1. Cross-border co-operation in the Upper Rhine Region is rather like Russian *matrioshka* dolls: the Regio Basiliensis lies within the Regio TriRhena, which lies within the EUregio Upper Rhine.

Source: OECD (2003), *OECD Territorial Reviews: Vienna-Bratislava, Austria/Slovak Republic*, OECD Publishing, Paris; and the websites of cross-border organisations mentioned in the text.

Box B.4. **Case study: the Baltic Sea Region (BSR)**

The Baltic Sea Region (BSR) has a long tradition of regional co-operation. The Hanse League, which began in the 12th century and prospered into the 15th century, linked together cities in Northern Europe and the Baltic Sea Region and demonstrated the interconnections among sea, trade and city prosperity. However, in more recent history, the Cold War era divided the BSR and prevented regional co-operation as a whole. After the fall of the Cold War system, the BSR proceeded towards greater integration and unity. In 2004, the enlargement of the European Union to include Poland and the Baltic Sea countries of Estonia, Latvia and Lithuania, created a new geopolitical advantage in the BSR. Today, the BSR covers eight EU member countries: three Nordic countries (Denmark, Finland and Sweden), three Baltic countries (Estonia, Latvia and Lithuania), the northern parts of Poland and Germany; as well as the western regions of Russia and southern coastal regions of Norway. Though their present levels of economic and social development differ depending on their history, economic growth is prevalent overall. Russia's role is especially crucial in the BSR: St Petersburg is the biggest and fastest growing city in the BSR and also the biggest university city. In addition, St Petersburg is the largest polluter of the Baltic Sea.

The EU has focused efforts on BSR development, especially since 2004 EU enlargement. The EU has crafted a Northern Dimension Policy which has covered the BSR since 1998. Northern Dimension Policy framework documents were adopted in 2006 as a regional expression of the EU/Russia Common Spaces. The policy focuses on economic co-operation, security and justice, research, education and culture, environment and natural resources, and social welfare and health. The EU strategy for the Baltic Sea Region is currently to co-ordinate the efforts of the various actors in the BSR (member countries, regions, financing institutions, the EU, pan-Baltic organisations, non-governmental bodies, etc.) so that they can promote more balanced development within the region. The objectives include environment, economic development, accessibility and attractiveness, and safety and security. Several convergence, competitiveness and co-operation programmes are co-financed by the European Regional Development Fund (ERDF) for the period 2007-13.

The Baltic Sea is vulnerable and unique in its ecology, being by far the largest brackish water reservoir in the world. Environmental concern about the sea is demonstrated in the many environmental activities in the BSR. The ten countries making up the Baltic Sea Region, along with the European Commission have developed Baltic 21 in response to the UN-endorsed global strategy to promote sustainable development (Agenda 21). The BSR is the first region in the world to adopt common goals for sustainable development. Many local municipalities in these countries have also established their own local Agenda 21. The Union of Baltic Cities (UBC) has promoted its own Agenda 21 since 2000 and committed to an Agenda 21 Action Programme 2004-09. The Baltic Sea Environmental Award is bi-annually given to the UBC member city which has shown the best results regarding Agenda 21 activities.

Box B.4. **Case study: the Baltic Sea Region (BSR)** (*continued*)

As for city-linkages, there are two very active associations. First, the Union of Baltic Cities (UBC) was established in 1991 as the first major sub-national BSR organisation. It now represents 106 cities with a total population of more than 20 million citizens in ten countries bordering the Baltic Sea. Its mission is to be a meeting place for cities in the BSR, to carry out joint activities and to raise the cities' views, problems and political aims. The UBC is a decentralised network organisation with a very wide array of activities. Its policy priorities are to promote cities' interests in European decision making, sustainable development, democracy and participation, common identity and co-operation in the BSR, as well as the rather new themes of an integrated European Maritime Strategy and an EU Baltic Sea Strategy.

High-level decision making is done through bi-annual general conferences, supported by an executive board consisting of one city from each BSR country, the UBC President and the UBC Presidium. The decentralised structure is co-ordinated by the UBC Secretary General and UBC Secretariat, located in Gdansk, Poland. The main practical work is respectively and independently carried out by 13 commissions and networks (business co-operation, culture, education, energy, environment, gender equality, health and social affairs, information society, sport, tourism, transport, urban planning, and youth issues). Activities of the UBC are mainly financed by membership fees as well as subsidies from individual states, cities and corporate bodies.

The Baltic Sea Region's capital cities and large metropolitan cities also established a joint network called the Baltic Metropoles (BaltMet) in 2002. The network is spearheaded by 11 city mayors and Helsinki has served as chair since 2003. Its central goal is to improve the competitiveness of the Baltic Sea Region by linking the key players in the region (big cities, universities and colleges as well as business representatives) into one entity. The collaborative focus areas are innovation promotion, regional identity building and marketing, infrastructure and sustainable development, and integration and capitalisation of urban expertise, according to the Action Plan 2008-10.

The regular Mayors' Meeting is the decision making body of the network, defining action plans and electing the Chair City and the Vice Chair City for the network. The chairmanship lasts for two years with the possibility of extension. The Chair City functions as the secretariat of the network during the chair period. The Chair City regularly convenes the Officials' Meeting, which consists of representatives from the member cities, to prepare the Mayors' Meeting and implement its decisions.

The operational costs of the network are covered by the participating cities. The secretariat function is financed by the chair. Member cities fund activities on an *ad hoc* basis and EU-funding is used effectively. The secretariat and the Chair City are responsible for overall co-ordination, while co-ordinating cities take the initiative for developing and implementing each project with other member cities.

The strength of the BSR lies in the close co-operation between BSR organisations at all levels, like the Council of the Baltic Sea States (states), Baltic Sea States Sub-regional Co-operation (regions) and the UBC and Baltmet (cities).

Source: The websites of cross-border organisations mentioned in the text.

North America: a focus on economic integration

The North American Free Trade Agreement (NAFTA) between the United States, Canada and Mexico came into force in 1994 and introduced new governance structures. The NAFTA emphasised market mechanisms through the protection of private property and foreign investor rights. Many traditional local government regulations and guidelines have been reinterpreted as non-tariff barriers to trade. These include sub-national rules on licensing, environmental standards, zoning, limiting the number of businesses through needs tests, demanding performance requirements or employee training. Though the NAFTA framework has facilitated active economic co-operation, it has not contributed much to strengthening local co-operative governance frameworks in the region. Data from the office of the US Trade Representative (USTR) show that the overall value of intra-North American trade more than tripled, from USD 297 billion in 1993 to USD 930 billion in 2007. Regional business investment in the United States rose by 117% between 1993 and 2007, compared to a 45% rise in the 14 years prior. Trade with NAFTA partners now accounts for more than 80% of Canadian and Mexican trade, and more than a third of US trade. However, under the NAFTA, cities have no representation at the negotiating or dispute resolution table (Warner and Gerbasi, 2004). Though national government commitment was important at the start and under the formal frameworks, cross-border co-operation has been complemented by a bottom-up approach driven by provincial and local level initiatives, especially in the United States-Canada case (Boxes B.5 and B.6).

Box B.5. **Case study: United States-Canada**

The United States and Canada share the world's longest undefended border, 8 891 kilometres of terrestrial boundary, including small portions of maritime boundaries on the Atlantic, Pacific, and Arctic coasts, as well as the Great Lakes. Canada resembles the United States in its market-oriented economic system and high living standards. Both countries have strong economic ties, each being the other's largest trading partner. Cross-border regional co-operation is intense, especially in the Great Lakes Region (GLR) and Northwest Region (NWR). This is rooted in cross-border economic ties and environmental challenges such as water management in the Great Lakes and coastal management of the Pacific Ocean. Early environmental co-operation was led by central governments. For example, both central governments established the International Joint Commission in 1909. Though central governments are still present today, regional and local level commitment for cross-border co-operation has flourished since the late 1980s, due to their increased stake and capacity. Away from the capitals of Washington DC and Ottawa, the border region is emerging as a "laboratory for experimentation" proposing and lobbying new policy for the national agenda.

Box B.5. **Case study: United States-Canada** (*continued*)

Great Lake Region (GLR)

The Great Lakes are the largest group of freshwater lakes on earth. They are located in eastern North America, on the Canadian-United States border. The Great Lakes states and the Province of Ontario comprise one of the most integrated border regions in the United States/Canada, given the network of bi-lateral linkages that connect jurisdictions bordering the basin. Cross-border communities like Detroit-Windsor and Buffalo-Niagara are tightly knit both economically and socially, with more than 300 000 people from both countries crossing the border every day to work, shop and visit family and friends. The Great Lakes Region (GLR) manufactures 60% of the continent's steel and 60% of the automobiles. The environmental impact on the Great Lakes of such active economic activity has been serious, however. The Great Lakes are used not only to supply drinking water to tens of millions of people in the GLR, but also as a major mode of transport for bulk goods and as a source of enjoyment for boating and tourism. Reflecting their importance, the Great Lakes were recognised as a "national treasure" in an Executive Order by President Bush in 2004.

At federal government level, the International Joint Commission (IJC) was established under the 1909 Boundary Water Treaty between Canada and the United States to prevent and resolve disputes over the use and quality of boundary waters, to advise Canada and the United States on water resources questions, and to approve and set conditions for the operation of projects in boundary waters that affect levels and flows on either side of the boundary. The commission is a permanent, bi-national, independent, and unitary body consisting of six members: three from Canada and three from the United States. The Great Lakes Water Quality Agreement was first signed in 1972, expressing the commitment of Canada and the United States to restore and maintain the chemical, physical and biological integrity of the Great Lakes Basin Ecosystem. The IJC has been monitoring and assessing progress promoted under the agreement and advising governments on matters related to the quality of the boundary waters of the Great Lake system.

Co-operation among states and provinces is very active and important in the GLR. The Great Lakes Commission is the platform for discussion among the eight Great Lake states of the United States and the Canadian provinces of Ontario and Québec. It aims to promote the orderly, integrated and comprehensive development, use and conservation of the water and related natural resources of the Great Lakes basin and St Lawrence River. The commission was established by joint legislative action of the Great Lake states in 1955 and was granted congressional consent in 1968. Under the US Water Resources Development Act of 1986, diversion of water from the Great Lakes Basin requires the approval of all eight Great Lakes governors through the commission. A Declaration of Partnership established associate membership for the Canadian provinces in 1999 and thus made the commission a cross-border platform. From that point, the eight governors and the premiers of Ontario and Québec negotiated and in 2005 finally signed the Great Lakes-St Lawrence River Basin Sustainable Water Resources Agreement and the Great Lakes-St Lawrence River Basin Water Resources Compact to prevent most future water diversions from the Great Lakes. The compact was not only approved by the related states' legislatures, but also the US Congress, and made a law by President George W. Bush in 2008. The 2008-10 work plan focuses on four areas: ports and navigation, clean energy, coastal community development, and tourism/recreation. The Great Lakes Observing System (GLOS) is organised through co-operation by the United States' and Canadian federal, state and provincial agencies as well as academic institutions, non-governmental organisations and commercial interests across the region.

Box B.5. **Case study: United States-Canada** (*continued*)

The Council of Great Lakes Governors was convened in 1983 to encourage and facilitate environmentally responsible economic growth. The council began as an organisation for environmental stewardship but has since developed more of a focus on economic development. In 1988, the governors signed a regional Economic Development Agreement, marking a change in the council's orientation from an agreement-based to a project-based organisation. In 1989 they established the Great Lakes Protection Fund, the first multi-state foundation dedicated to improving the environment. They also established shared trade offices around the world and have promoted many projects, such as for pollution prevention and the Brownfield Project. The council also assists the governors and premiers in co-ordinating activities under the Great Lakes Charter of 1985, a voluntary non-binding agreement through which the Great Lakes states and provinces co-operatively manage the waters of the Great Lakes.

Despite the variety of efforts over the past decades, until recently, almost none has involved municipal leaders. To represent the voice of the cities, the Great Lakes and St Lawrence Cities Initiative (GLSLCI) was established in 2006. The GLSLCI is a cross-border coalition of more than 50 mayors and other local officials who work actively with federal, state and provincial governments to advance the protection and restoration of the Great Lakes and the St Lawrence River. In 2008, a Memorandum of Co-operation was signed by the GLSLCI, the government of Ontario, and the Ontario Great Lakes municipalities. The Ontario government agreed to consider the recommendations of the GLSLCI on implementing the Canada-Ontario Agreement Respecting the Great Lakes Basin. The vertical relationship is more effectively promoted in this case.

Northwest Region (NWR)

Cross-border co-operation in the NWR is centred on British Colombia Province in Canada and Washington state in the United States. British Colombia and Washington state signed an Environmental Co-operation Agreement and established an Environmental Co-operation Council (ECC) in 1992. The ECC and its taskforces have been actively dealing with a number of critical cross-border environmental issues such as flooding of the Nooksack River, the Abbotsford Sumas Aquifer, and air/water quality issues in the Columbia River Basin. In 2005, British Colombia and Washington signed a Memorandum of Understanding to enhance trade opportunities and create stronger ties between the two jurisdictions. The memorandum pledged that the two governments would extend co-operation in the areas of trade, 2010 Olympic and Paralympics Winter Games, environment, tourism, technology, education and transport. It also established annual joint cabinet meetings.

Multi-lateral coast-wide co-operation is also flourishing. Recently, states and provinces all along the west coast, from Canada through the United States to Mexico, established a partnership called the West Coast Collaborative. Involving leaders from federal, state and local governments, the private sector, and environmental groups, it aims to reduce diesel emissions by raising awareness, sharing information and implementing projects that are regional in scope. In 2008, a new Pacific Coast Collaborative agreement between British Colombia, Alaska, California, Oregon and Washington was established to address climate change. It shares a common vision of Pacific North America as a model of innovation and sustainable living in the "Pacific Century" that creates new and growing economic opportunities for citizens and a model for sharing best practices, a framework for co-operative action, a forum for leadership, and a common voice on issues affecting the Pacific coast region.

Box B.5. **Case study: United States-Canada** (*continued*)

Economic collaboration is also outstanding, reflecting the awareness that NWR ranks 11th among the world's leading industrial economies, with a combined population of more than 18 million and an annual gross regional product of over USD 350 billion. The Pacific Northwest Economic Region (PNWER) was established in 1991 as a statutory, public-private partnership composed of legislators, governments and businesses in the five northwest states (Alaska, Idaho, Montana, Oregon and Washington), two western Canadian provinces (Alberta and British Colombia) and the Canadian territory of Yukon. They formulate and promote action plans on key issues affecting the region, such as energy, transport, health care and natural resources. In terms of transport, the International Mobility and Trade Corridor Project (IMTC), a regional bi-national planning coalition, has been actively promoted by the Whatcom Council of Governments and other IMTC participants. It comprises representatives from the United States and Canadian transport agencies, inspection agencies, border jurisdictions and industries dependent on cross-border mobility. Since 1997 they have worked together on co-ordinated system management, identifying improvements and partnerships to advance projects. They have improved planning and data collection, promoted infrastructure improvements, and updated operations, policy and staffing at the border. The 2010 Olympics in Vancouver/Whistler drove further co-operation across the border.

The British Colombia/Washington State partnership on enhanced driver's licenses is a particularly interesting case that shows the strength of cross-border "regional" collaboration in helping avoid or resolve bi-national disputes and providing "laboratories" for policy innovation. In 2004 the United States adopted the Western Hemisphere Travel Initiative (WHTI), requiring everyone entering or re-entering the United States to present a valid passport or other secure identity document. This threw the citizens of the border region into confusion as only an estimated 23% of Americans and perhaps 55% of Canadians held passports. More than 32 000 vehicles pass cross the British Colombia-Washington border every day and more than 1.3 million trucks cross the border each year. Border congestion was estimated to cost USD 60 million a year. The economy and society of the border region were dependent on the efficient flow of goods and people across the border. Uncertainty over the WHTI passport requirements was likely to have a negative impact on cross-border traffic. To assure smooth and efficient legitimate travel and trade while maintaining national security, both British Colombia and Washington state decided to upgrade driver's licenses so that they could be used as valid identity documents instead of passports. Since 2008, the enhanced driver's licenses have been used as alternative identity documents. The idea was born from a bi-lateral meeting, advocated and developed through bi-lateral and multi-lateral cross-border organisations such as the PNWER. This idea has spread, set the agenda within central government and driven national action.

Source: Policy Research Initiative (PRI), Government of Canada (2008), "The Emergence of Cross-Border Regions between Canada and the United States", Final Report, PRI, Ottawa, Ontario; and the websites of cross-border organisations mentioned in the text.

Box B.6. **Case study: United States-Mexico**

The California-Mexico region has been linked across the centuries by immigration, economic integration and culture. Millions of Californians, recent arrivals and long established families, have their roots in Mexico. The San Diego-Tijuana border area is the largest bi-national metropolitan area between the United States and Mexico. It comprises San Diego County (California) and the *municipios* of Tijuana, Tecate and Playas de Rosarito (Baja California, Mexico) and includes over 5 million people. Historically San Diego and Tijuana were both once part of the Mexican territory until the end of the Mexican-American war in 1848. In 1965, Mexico's *maquiladora* programme (an incentive programme for foreign companies to locate assembly and manufacturing facilities in Mexico) began, with the first plant being set up in Tijuana. Since then, many assembly plants, called *maquiladoras*, have been established on the Mexican side of the US-Mexican border zone, taking advantage of the NAFTA and cheap labour from Mexico to export products mainly to the United States. The *maquiladora* industry was very successful in the 1980s and 1990s, leading to over 3 703 *maquiladoras* being registered in Mexico by December 2000. Incentives for *maquiladora* factories were first given only to the border region, but later expanded to inland Mexico. However, because of their geographical proximity, around 60% of *maquiladoras* were still located in border regions in 2006. Trade between Mexico and the United States increased along with the development of these *maquiladoras*. Reflecting the close economic ties of the border region, in San Ysidro crossing – the world's busiest land border crossing, where US Interstate 5 crosses into Mexico at Tijuana – more than 17 million vehicles and 50 million people entered the United States in the 2005 US fiscal year. The great majority of these were workers of Mexican or US nationality commuting from Tijuana to jobs in and around the greater San Diego area, which implies that both San Diego and Tijuana is a functionally integrated economic area. Southbound traffic is also thriving, due to workers travelling to *maquiladoras* in Mexico and those purchasing services which are cheaper in Tijuana than San Diego, such as medical care and vehicle repairs.

The cross-border co-operation originated through an initiative by national governments, against a background of increasing economic interdependency. The presence of national government is still strong, however. Examples include the Border Environment Co-operation Commission (BECC) and the North American Development Bank (NADB), which were established as part of the NAFTA in 1993. They help the border region cope with the lack of environmental infrastructure and potential environmental pressures stemming from the NAFTA. They also aim to increase economic activities in the border region under NAFTA. The BECC works with states and local communities to develop environmental infrastructure projects such as water supply, solid waste management, air quality improvement and clean energy. The NADB finances the projects that the BECC approves. By March 2009, the BECC had certified 152 projects (77 in the United States, 75 in Mexico) which will cost an estimated USD 3.2 billion; the NADB has contracted more than USD 920 million in loans and/or grant resources to support the implementation of 122 of those projects (BECC/NADB, 2009). Both the Mexican and US central governments have made equal financial and institutional commitments to the NADB. The Board of Directors of BECC/NADB consists of three representatives from each government, a representative of a border state from each country, and a representative of the general public from each country who has resided in the border region since 2004. In spite of this progress, however, the sense of shared regional identity is rather weak compared to the United States-Canada case. This may partly be due to the differences in economic development. Co-operation at regional and local levels has not yet flourished as much as in other regional cases either.

Source: BECC/NADB (Border Environment Cooperation Commission/North American Development Bank) (2009), *Joint Status Report*, *www.nadb.org/pdfs/status_eng.pdf*, accessed 28 August 2009; FRBD (Federal Reserve Bank of Dallas) (2005), "Crossroads: Economic Trends in the Desert Southwest", Issue 2, FRBD, El Paso Branch, United States; Florida, R. (2008), *Who's Your City?*, Random House, Canada; the websites of cross-border organisations mentioned in the text.

Categorising cross-border co-operation

There are many ways to classify cross-border co-operation. The clearest demarcation relates to the spatial scale:

- Co-operation by neighbouring countries: this type deals with regional challenges across borders between neighbouring countries, such as Öresund and San Diego-Tijuana. Regional context matters the most in these cases, which can be described as micro-cross-border regions.
- Co-operation involving several countries: larger scale co-operation, often where large natural resources such as oceans and lakes are shared, *e.g.* the Baltic Sea and Great Lakes regions.
- Global co-operation: deals with global challenges, such as climate change and free trade promotion.[6]

Focusing on the main drivers of cross-border integration, Perkmann (2007) divides cross-border co-operation into two streams: *i*) market-driven integration based on the proliferation of economic and social relationships; and *ii*) policy-driven integration based on the building of co-operative relationships between public and other bodies that share certain interests. The former type generally takes advantage of the persistence of borders, where accentuated cross-border differentials (*e.g.* different wage and capital costs) stimulate cross-border activities, as in United States-Mexico. The latter tries to overcome border barriers such as inconsistent regulations.

The OECD has focused on cross-border governance and classified major cross-border co-operation into four groups (OECD, 2006a). This categorisation was based on two variables: *i*) the governance system's thematic outreach (the co-operation field to be addressed through linkage); and *ii*) the degree of institutionalisation of cross-border organisation.

- **Joint implementation of single projects.** This is embryonic cross-border co-operation, in which transport and environment are the most commonly addressed projects because of their cross-border nature. At this stage, there is no institutionalisation. An example is Vienna-Bratislava.
- **Governance by mono-thematic commission,** based on a sectoral approach. Again the sectors addressed tend to be mainly transport and environment. Flexible networks might occur but formal institutionalisation does not. Examples from North America include San Diego-Tijuana and Windsor-Detroit.
- **Governance by *babushka*:**[7] multiple levels of formal organisations are involved with co-operation across many fields. However, no central organisation is institutionalised. Thus, they are loosely connected by a shared vision. Examples are Öresund[8] and RegioTriRhena.
- **Governance managed by a catch-all institution.** The institution covers a wide array of policy fields and is highly institutionalised at the regional scale.[9] Examples are Euroregions, such as the EUregion Meuse-Rheine and the EUregion Pro Europe Viadrina. An appropriate governance structure is chosen to fit the characteristics and needs of the regions.

Blatter (2004) also analysed cross-border institutions in Europe and North America and grouped cross-border co-operation into four groups: commission, connection, consociation and coalition. Compared to the OECD analysis, he looks more at

institutionalised co-operation and the variety of existing institutions. His variables for classification are: *i)* instrumental or identity-providing (determined by function, motivation, and a crucial element for collective action); and *ii)* territorial governance or functional governance (determined by the structural pattern of interaction, sectoral differentiation, functional scope, geographic scale and institutional stability). Each variable consists of a set of factors. On the one hand, instrumental institutions tend to use "rules" to reduce the uncertainty of related entities and promote economic integration. They tend to be institutionalised through the integration of public and private/non-profit sectors and cover a narrow set of tasks at multiple geographic scales. As a result, they are a very fluid type of governance. On the other hand, identity-providing institutions use "symbols" for collective action backed-up by a sense of shared destiny. They tend to be institutionalised by the public sector and cover a broad range of tasks within clear-cut geographic areas. As a result, they are a very stable type of governance system.

Comparing European and North American cross-border co-operation

We have compared Europe and North America with the above factors in mind. This raises the following four points. First, "a sense of common destiny" based on regional identity tends to be the backdrop of cross-border co-operation in Europe. This might be because many countries in Europe are generally at a similar level of development and belong to the EU, which pursues solidarity and cohesion. On the other hand, North American co-operation tends to be more centred on rather pragmatic issues such as economic interdependence and the accompanying environmental interdependencies of both regions. The economic interdependency takes two forms. The US-Canada relationship tends to involve complementing each other's strengths by combining different techniques and skills, possibly because both countries share the same level of economic development. However, the US-Mexico linkages are mainly motivated by the difference of factor prices, reflecting their different levels of economic development, as in the San Diego-Tijuana linkage. As Kim and Lee (2005) suggest, a sense of common destiny helps to lose the sense of border, while economic interdependencies help to ensure that borders persist as complementarities come from differences in both countries. In a situation of economic interdependency which takes advantage of factor price differences, any motive to keep wages low in the other country perpetuates social tensions across the border and is not economically sustainable in the long run.[10]

The second point is that asymmetric legal and socio-political structures make the multi-faceted development of cross-border co-operation especially difficult. In general, cases of both European countries and the United States-Canada do not differ much in their legal and political structure, even though some countries are federal and others are unitary states. However, the US-Mexico case and cases between some western European countries-new EU member countries have political and legal asymmetries, reflecting their different histories and levels of economic development.

Thirdly, governance structures, especially the balance between local and national governments, are starkly different in Europe and North America. Cross-border co-operation in Europe, which was generally initiated by national government, has shifted focus towards local governments following the EU's promotion of multi-level governance. As a result of this shift, more integrated place-based policies are often crafted in cross-border institutions. Europe's cross-border activity is strongly promoted by the local public sector backed by upper tier governments. Strong involvement by the public sector has often led to the clear definition of geographic scale, usually following their administrative jurisdiction. In contrast, in North America, there is strong

involvement by national governments and the private sector in spite of the rather weak presence of local governments.[11] In general, cross-border activity in North America is issue-specific and its geographic scale is fuzzy.

Finally, while Europe is keener on an umbrella organisation that covers different initiatives, North America favours separate bodies for dealing with specific topics (OECD, 2003a). In other words, Europe tends to take a place-based integrative approach while North America generally takes a function-oriented approach. The European style of cross-border co-operation has often created organisations that cover many and diverse policy fields in a target area within complex governance structures. There tends to be a high degree of administrative complexity and public sector dominance. In contrast, the North American continent has developed more pragmatic and flexible governance structures, more focused on a few objectives such as water resource management and infrastructure financing, and involving the private sector and non-governmental organisations more.

Table B.2 summarises the various types of cross-border co-operation. However, this is a thematic categorisation and clearly no real-life case exactly fits these idealised categories. The OECD applied this analysis from European and North American examples into an East Asian context in the *Territorial Review of Pan Yellow Sea Region* (PYSR). The cross-border co-operation observed in the PYSR is closest to the category of "economic interdependency (factor price)" in Table B2. In the PYSR, the major driving force of regional linkages is the private sector, which has established intensive manufacturing networks. No strong formal governmental framework for supporting cross-border co-operation has been established. Inter-governmental co-operation is in the early stages and has no binding structure. In the terms of the OECD (2006a), these collaborations only involve the "joint implementation of single projects". In sum, there is a clear asymmetry between deepening functional economic linkages and the developmental status of the political co-operative framework.[12] Based on this analysis, the OECD recommended that effective governance structures are needed if the PYSR wants to develop more as an integrated region (Box B.7).

Table B.2. **Thematic categorisation of cross-border co-operation**

Motivational factors	Regional identity or common value	Regional identity or common value	Economic interdependency (factor price)	Economic interdependency (technology)
Example	TriRhena, Öresund	Baltic Region, US-Canada	San Diego-Tijuana	US-Canada
Leader	Public sector (especially local government)	Public sector	Private sector's strong involvement	Private sector's strong involvement
Scope	Multi-faceted (place-based integrative approach)	Narrow (function-based approach)	Narrow (function-based approach)	Narrow (function-based approach)
Geographic scale	Clear-cut	Fuzzy	Fuzzy	Fuzzy
Temporal stability	Stable	-	Unstable in the long run	Stable
Institution	Mono-centred, hierarchy, multi-faceted	Poly-centred, network, issue focused	Poly-centred, network, issue focused	Poly-centred, network, issue focused

Source: OECD (2009), *OECD Territorial Reviews of Trans-border Urban Co-operation in the Pan Yellow Sea Region*, OECD Publishing, Paris.

Box B.7. **Case of the Pan Yellow Sea Region**

The Pan Yellow Sea Region (PYSR) covers the coasts of northern China (Bohai Rim), south-western Japan (the Kyushu area) and western and southern Korea. It had a population of 256 million people in 2006. It is one of the fastest growing economic zones in east Asia with a regional GDP of USD 1.5 trillion in 2006. Rapid economic integration began in the early 1990s when the Chinese economy opened its markets to the world. Since then, the PYSR has made significant progress in economic exchange across its borders. This achievement has principally been driven by the private sector, which has taken advantage of the variations in factor prices within the region. In particular, Japan's and Korea's multi-national enterprises have played a key role in turning the region into an integrated economic zone. China has an abundant labour force, vast natural resources and huge markets, while Japan and Korea have ample capital and advanced technologies. This process has been further driven by industrial restructuring in Japan and Korea. Japanese firms relocated production sites overseas following sharp rises in the yen, land prices and unit labour costs. A similar approach was taken by Korean companies. At the same time, the Chinese government provided a wide array of incentives to promote investment by foreign companies, such as creating special development zones in coastal areas, providing infrastructure and tax incentives. Matching interests among business sectors in the three countries has resulted in rapid economic integration in the region.

Cross-border governance in the PYSR is not well developed and lags behind the more intense economic linkages. Recently, local governments have been seeking to build a cross-border governance framework in this region, and have had some concrete achievements. The Organisation of East Asian Economic Development (OEAED), for example, was established in 2004 and involves the PYSR's ten major coastal cities. It holds an annual mayors' summit, and also involves working groups to discuss manufacturing, logistics, tourism and environmental issues. However, these networks have yet to unite the fragmented visions of participating cities, and so far have failed to establish a coherent development strategy for the region as a whole. Cross-border city linkages in the PYSR, such as sister city programmes, are in the early stages of community building. Inter-city networks rely on voluntary agreements and no legally binding overarching framework exists in the PYSR. The lack of a coherent strategy sometimes leads to rivalry rather than alliances, resulting in duplicated public investment and harmful competition among cities.

Source: OECD (2009), *OECD Territorial Reviews: Trans-border Urban Co-operation in the Pan Yellow Sea Region*, OECD Publishing, Paris.

Box B.8. **Four critical aspects of cross-border linkages**

The prevailing culture of co-operation: Co-operation across national borders is not only the technical inter-linkage of two or more different systems of governance. It also has to bring together different people and social systems with differing systems of values. Therefore the culture of co-operation that exists (or may emerge) in a multinational metropolitan area is most decisive for any approach towards metropolitan governance across borders. It is principally centred on two questions: first, what role are local actors willing to concede to their potential partners on the other side of the border in the management of the region? This is the basic question concerning the will to engage in co-operation. Second, how easy will it be to co-operate? Language problems or different standards in culture, politics, etc., can provoke long delays in the administration and implementation of technical questions and cause frustration among co-operating actors.

Box B.8. **Four critical aspects of cross-border linkages** (*continued*)

Legal aspects: Establishing a system of metropolitan governance across borders means institutionalising one set of co-operation agreements across several different jurisdictional systems. Co-operation is easier if the different legal systems in a metropolitan area share some similarities. This is, for example, the case for co-operation among Scandinavian countries, whose legal systems are relatively similar. If differences prove substantial, they can be bridged with the help of bi- or multi-lateral agreements. They provide a legal framework for co-operation at the regional level and enable direct co-operation at the sub-national level (*e.g.* the creation of cross-border associations assembling several municipalities). Over the second half of the 1990s these agreements have mushroomed, especially in Europe.

Financial aspects: In the absence of a higher level of government to promote co-operation in a multinational region, incentives have to be provided to enhance co-operation. The supply of financial funds is a way to correct a market failure induced by a border that prevents actors from co-operating. The ambition of funds trying to address this problem is to initiate economic activities (including a reasonable return of investment). In Europe, the INTERREG programme is the most prominent example of this approach. Besides availability (and accessibility) of external funds, the establishment of a trans-national system of governance also requires sufficient internal funds.

Distribution of competences: Co-operation is dependent on having a partner with decision-making authority. It is obstructed if a metropolitan area belongs to countries with strongly diverging constitutional set-ups and differing distribution of competences. Take the example of a region which spans one federally organised country and one centrally organised country. In this case, administrative competence can fall into the hands of local municipalities on the one side, whilst on the other side it rests with the deconcentrated agencies of the national government. Or, assume that the overall distribution of power is balanced: partners are of roughly equal "weight", yet they have different strengths and skills. These situations complicate co-operation, as different sets of actors from differing levels of governance have to be assembled for every problem. They can result in a situation where, for example, the establishment of a cross-border industrial park has to be managed by the local authority of the one side together with a national ministry on the other.

Source: OECD (2006), *OECD Territorial Reviews: Competitive Cities in the Global Economy*, OECD Publishing, Paris.

Lessons from existing cross-border co-operation

The OECD (2006a) has identified four major factors that are crucial to the development of cross-border co-operation:[13] a culture of co-operation (intention to engage in co-operation and ease of co-operation), legal framework, financial aspects, and distribution of responsibilities. Of these, a culture of co-operation is the foundation of co-operation. The more similar the political systems of co-operating countries, the easier co-operation will be. If a culture of co-operation exists, this can be supported by an appropriate governance structure which includes a legal framework and the clear distribution of responsibility. Financial aspects are also important as drivers or incentives for co-operation in the short and long run (Box B.8).

The previous section described how the different types of cross-border co-operation depend on the economic and political structures of each country. It also described some of their shared characteristics. We have drawn out some lessons for effective cross-border co-operation based on the OECD's findings in 2006, the classifications and each case study in this annex.

- A shared sense of common identity is a precondition for any cross-border co-operation. This identity can involve physical/material interdependency (*e.g.* economic and environmental), or regional identity based on historical and cultural factors.[14] Physical interdependency and regional identity recognition are complementary and it often happens that a co-operative activity starts based on physical interdependency, but a regional identity later develops, or *vice versa*. Both factors influence each other in the process of strengthening a shared sense of common destiny, which leads to more effective cross-border co-operation.[15] This also suggests that essential drivers for cross-border co-operation are not only the free movement of goods and services, but also the free movement of ideas, usually accompanied by the free movement of people.

- National or supra-national governments play a leading role in establishing cross-border co-operation. This implies that the positive involvement of higher level governments is indispensable, especially when co-operation is being established. In Europe, EU support and subsidies were pivotal for facilitating cross-border co-operation in many regions. In North America, even though cross-border co-operation was led by private interests, the strong support by national government was regarded as key for the emergence of a cross-border region. National government was needed to legitimise and facilitate co-operation (Blatter, 2003; Thant, 2007). National government can: *i)* remove barriers to cross-border integration, for example through decreasing and aligning regulations under its jurisdictions; *ii)* mediate the different interests of sub-national governments; and *iii)* provide an enabling environment for sub-national governments, for example by providing financial incentives and framing "meta-governance" (Box B.9).

- The development of cross-border co-operation also needs an appropriate governance structure, one which goes beyond seminars or fora. Though informal relationships ensure flexibility, institutionalisation brings temporal stability to cross-border co-operation. Both vertical and horizontal governance, including the private sector and citizen organisations, are essential.

- Physical infrastructure is often a key driving force for promoting further co-operation. Physical infrastructure, mainly transport and telecommunications, enables the efficient flow of goods, services and ideas. This is why the EU Cohesion Policy has focused on removing physical barriers in cross-border regions and promoting a trans-national highway network.

- Last, but not least, the socio-cultural network, *i.e.* soft infrastructure, is also very important for the development of co-operative relationships. Soft infrastructure consists of human and social capital. People who are attuned to crossing borders can contribute to the integrated development of the cross-border region and are necessary assets for collaboration. Social capital includes network-oriented facilities such as universities, open-minded cultures and urban amenities that accommodate the needs of people crossing borders. They are drivers of cross-border co-operation.

Box B.9. **Roles for meta-governance**

The concept of meta-governance implies the management of government and the governance process using a range of mechanisms. To successfully manage this complex set of policies and institutions, it has been recommended that the entity responsible for meta-governance:

- ensures the compatibility or coherence of different governance mechanisms and regimes;
- acts as the primary organiser of the dialogue among policy communities;
- deploys a relative monopoly of organisational intelligence and information with which to shape expectations;
- serves as a "court of appeal" for disputes arising within and over governance;
- seeks to re-balance power differentials by strengthening weaker forces or systems in the interests of system integration and/or social cohesion;
- tries to modify the self-understanding of identities, strategic capacities, and interests of individual and collective actors in different strategic contexts and hence alter their implications for preferred strategies and tactics; and
- assumes political responsibility in the event of governance failure.

Source: Jessop (2000), "The Dynamics of Partnership and Governance Failure", in G. Storker (ed), *The New Politics of Local Governance in Britain*, Macmillan, Basingstoke, United Kingdom, pp. 11-32, cited in OECD (2006), *OECD Rural Policy Reviews: The New Rural Paradigm: Policies and Governance*, OECD Publishing, Paris.

Notes

1. This annex is mainly based on the Annex of OECD (2009a), with some revisions added.

2. Martinez (1994) categorised border relations into four groups depending on the degree to which border regions are penetrated: alienated borderlands (*e.g.* the Korean border), co-existent borderlands (*e.g.* inner border of former Soviet Republics), interdependent borderlands (*e.g.* Mexico-United States), and integrated borderlands (post-Schengen EU countries).

3. An additional protocol in 1994 allowed the transfer of trans-border agreements from public international law to the administrative law of the states concerned.

4. The total body of EU law.

5. Certain professionals, such as lawyers, veterinarians and architects are regulated by EU directives which state that a person who is formally qualified to exercise a profession in a member country shall, upon application, be similarly qualified in other member countries, sometimes with probation or traineeship.

6. The infrastructure supporting co-operation is sometimes divided into regional public goods (such as an inter-country railways and highways) and global public goods (such as World Trade Organisation rules) (Fourie, 2006). Fourie claims that the infrastructures for the latter tend to be institutional and regulatory, *i.e.* soft policies.

7. *Babushka* is a Russian doll consisting of multi-sized dolls.

8. Öresund actually has a central institution called the Öresund Committee. But it should be noted that the committee is currently solely a platform for discussion. However, it is currently expanding its authority.

9. The centralised over-arching institution tends to be seen as the zenith of cross-border linkages. However, we should note that some institutions are solely regarded as administrators of EU funds, and are simply bureaucratic, lacking local participation. In this case, the institution is characterised by administrative complexity and public sector dominance.

10. The principle of economics predicts that factor prices will be equalised sooner or later as long as free movement of the factor is allowed.

11. It should be noted that the US-Canada cases show strong leadership by provincial-level governments.

12. This does not mean that national government didn't play a role in bringing about economic integration. Each country played an important role by promoting economic policy, which was export-oriented in nature. However, these economic policies did not have a region-to-region co-operation perspective across the border.

13. The analysis mainly addresses the linkages of cross-border metropolitan areas, instead of general cross-border linkages.

14. Reasons for a regional identity or material interdependency are diverse: resolving the practical difficulties created by the existence of the border (*e.g.* border crossing); finding solutions for cross-border problems (*e.g.* environmental issues such as air and water quality); gaining information about issues which may affect neighbouring regions (*e.g.* the impact of a big development project on land use and transport); assuring the appropriate scale in the pursuit of economic efficiency (*e.g.* public service delivery and global competition).

15. In the case of European cross-border co-operation, the motives for co-operation have changed over time. In the early stages, in the 1960s, government-led motives such as infrastructure planning, the development of cross-border transport facilities, and the sharing of public service delivery were dominant. A new concern for the environment gradually grew out of pressure from citizens. In the late 1970s and early 1980s when European integration stagnated, an idealistic push for European integration promoted cross-border co-operation. After the introduction of the single market and the accompanying increased global competition, economic interests facilitated co-operation, supported by the incentives of EU subsidies. Cross-border activities have largely increased throughout Europe since the 1990s.

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ANNEX C

Urban-rural Linkages: In View of Controlling Urban Sprawl

Introduction

The OECD has studied urban-rural linkages from a broad perspective (OECD, 2009a). In this report, the focus is on the spatial and fiscal inter-dependence of urban areas and their neighbouring rural regions, especially on how to control urban growth in the process of urban sprawl. In general, rapid urbanisation has required governments to deal with the short-term impacts of land development and the accompanying economic growth over long-term economic, environmental and social interests, but unplanned urban growth poses short- and long-term challenges to economic growth and sustainability. These challenges include the conversion of farmland to urban use without consideration of the impact on employment, innovation and academic clusters, transport networks and public service delivery.

Land should be carefully managed to support economic activity, safeguard environmental resources and achieve a sense of social cohesion. First, land is a limited resource for current and future generations and the fundamental base where economic and social activities take place. Second, land use of a specific place has a close relationship with and impact on neighbouring places, *i.e.* land has positive and/or negative externality effects.[1] In other words, markets in themselves do not create optimal outcomes in land markets. Non-commodity aspects of land, such as a nice environment and nature values, tend to be under-produced. Third, land value changes based on demographic, industrial and general land-use trends, the degree of infrastructure development, and other socio-economic conditions, also affect those trends and factors. Fourth, some land-use conversion (*e.g.* farmland to urban use) is most likely irreversible. Therefore, public interest should be protected and, when necessary, take precedence over private interests. It is for those reasons that land-use regulations are rationalised in many OECD member countries, although specifics may vary from country to country depending on each country's individual context.

Land management affects urban forms, which in turn may be responsible for producing a spatial layout that minimises congestion, increases productivity and the exchange of ideas, and makes the area more attractive. Conversely, poor land administration may result in a disorganised city form with high environmental costs, *i.e.* urban sprawl, along with traffic congestion and an irrational allocation of infrastructure. A sprawling model often enshrines an inefficient rationale for infrastructure extension, elevating capital costs related to building more schools and extending roads, water, sewer lines and water drainage systems.

Many OECD member countries have developed real estate market policies to address market failures (*e.g.* asymmetric information) and land-use regulations to achieve rational urban development. Central governments are generally responsible for basic legal and institutional rule-making to ensure a well-functioning real estate market. Protection of private property rights, a litigation system, information and database for land property (including cadastre) are all indispensable for a sound real estate market. As for land use, central government often prepares guidelines and basic rules for sub-national governments without interfering with detailed regulations. Municipal governments, in turn, create detailed land-use plans and regulations in accordance with national guidelines and local contexts. Between the central and municipal level, a regional level spatial plan is also emerging in many metropolitan areas in OECD member countries (*e.g.* Canada, France, the Netherlands, some states of the United States), due to the expansion of functional areas over municipal boundaries.

We will first introduce how OECD member countries have tried to manage urban growth, in terms of rate and geographic scale. Then, we will look specifically at the policies used to address urban finance. Lastly, we will discuss the basic tools of land management policy. Those basic tools are already well developed in many OECD member countries but the techniques could prove useful for some recently developing non-member countries, which are currently experiencing a high rate of urbanisation. The information was mainly collected from *OECD Territorial Reviews, OECD Metropolitan Reviews* and *OECD Rural Reviews* as well as from academic papers.

Managing urban growth: rate and geographic scale

Disordered farmland conversion is a concern in many countries across the world, though the background varies between OECD member countries, which are generally concerned about environmental issues and rural amenities, and countries such as China, which are struggling with high urbanisation rates and concerns about food security. Unplanned urban growth can cause many problems, such as insufficient infrastructure and public services, traffic congestion and disordered landscapes. Problems of uncontrolled growth are generally recognised from economic, social, environmental and value aspects (Table C.1).

Table C.1. **Problem recognition and expected policy effects of urban growth management**

Problem recognition	Expected policy effects
Economic	Economic
• Loss of farmland (decrease of agricultural production)	• Continued existence of farmland (maintaining agricultural production)
• Increased commuting time	• Decreased commuting time
• Inefficient public service and infrastructure	• Efficient public service and infrastructure
Social	Social
• Social exclusion (*e.g.* residential segregation between suburbs and city centre)	• Harmonious community
• Loss of farmland (food security)	• Continued existence of farmland (maintaining agricultural production)
Environmental	Environmental
• Increase of CO_2 emissions	• Decrease of CO_2 emissions
Value	Value
• Loss of rural scenery and amenities	• Continued enjoyment of rural scenery and amenities

Source: OECD adaptation based on Milward, H. (2006), "Urban Containment Strategies: A Case-Study Appraisal of Plans and Policies in Japanese, British and Canadian Cities", *Land Use Policy*, Vol. 23, No. 4, pp. 473-485.

Urban growth management in OECD member countries is mainly a result of the need to align urban growth and infrastructure planning, and the need to control urban sprawl for improving the environment and amenities as well as increasing the efficiency of public infrastructure and service provision. Smart Growth, consisting of a combination of transport alternatives, updated infrastructure, a wider choice of housing options, better environmental protection, and greater reinvestment in city centres, has gained increasing popularity in this context. Smart Growth has been gaining popularity in the United States since the late 1990s,[2] especially with the Clinton-Gore administration's initiative of "Liveable Communities". This initiative included federal support for mass transit, redevelopment of brownfield sites and matching grants for regional and local initiatives in the areas of smart growth.

OECD member countries have acquired experience in policies to control the rate and location of urban development. An appropriate balance of urban and rural land depends on the context of each locality and there is no universal truth or one-size-fits-all approach. However, the arguments in favour of the compact city have convinced many authorities to advocate urban renewal policies, in preference to the pursuit of suburbanisation. Ultimately it can be said that policies to limit urban sprawl aim to improve the attractiveness and the quality of urban core districts compared to suburbs.

The other side of coin of urban renewal polices is the protection of open spaces and farm lands in peri-urban areas. For instance, the German federal government has advised to reduce the farmland-to-settlement-and-traffic-use conversion from its current level of approximately 114 hectares per day to 30 hectares per day by 2020 in the "goal-30-ha" plan (Tan *et al.*, 2009). The European Economic and Social Committee on Agriculture and Peri-urban Areas stresses the opportunity to consider them as "rural areas that face specific and characteristic constraints that set them apart from other rural areas, and whose survival is seriously threatened" (EESC, 2003:63). It analyses the role and function of agriculture in such areas as a producer of "public goods". In peri-urban areas, pressures from the urban environment and industrial activities raise serious problems for the continuity and stability of agriculture, its economic vitality and rural community (OECD, 2009b).

Against this background, diverse policies for managing urban growth, especially urban sprawl, have been designed and implemented in OECD member countries. The main goals of growth management policies are to guide the location and timing of new urban development. Depending on the characteristics of the policies, they are generally classified into public acquisition, regulation, and incentives and fiscal policies (Table C.2). The policies are also divided into two streams based on whether they approach the urban sprawl issue with urban policies or open space protection (rather rural policies). They are generally used as a package, rather than individually implemented.

Controlling the rate of urban growth

Rapid urban growth poses a problem especially when the supporting urban infrastructure is not well established. OECD member countries have developed the following policy tools to align the rate of urban growth and infrastructure development.

Development moratoria: This is one of the most drastic growth management policies, usually implemented by prohibiting the issuance of building permits. The regulation is generally temporary and used in rapidly growing communities, allowing local government time to find solutions to growth-related problems (Bengston *et al.*, 2004).

Rate of growth controls, **growth-phasing regulation**: These two tools are less drastic than development moratoria in that they allow some level of development. Both tools are generally implemented by controlling the number of building permits. They are implemented in rapidly growing communities in order to allow governments adequate time to find solutions to urban growth-related problems. Rate of growth controls typically put an upper limit on the number of annual building permits. Growth-phasing regulation translates the availability of public facilities into a maximum number of building permits in a given year (Bengston *et al.*, 2004).

Table C.2. **Public policies for managing urban growth and protecting open space**

Policies for managing urban growth	Policies for protecting open space
Public acquisition • Fee simple public ownership of parks, recreation areas, forests, environmentally sensitive areas, etc.	Public acquisition • Fee simple public ownership of parks, recreation areas, forests, environmentally sensitive areas, etc.
Regulation • Development moratoria, interim development regulations • Rate of growth controls (such as building permit caps), growth-phasing regulations • Adequate public facility ordinances • Performance-based planning • Up-zoning or small-lot zoning, minimum density zoning • Mixed-use zoning • Transport-oriented zoning (TOZ) • Urban growth boundaries • Green belts • Urban service boundaries • Comprehensive planning mandates (master plans)	Regulation • Subdivision exactions • Cluster zoning (often with incentives) • Down-zoning or large-lot zoning • Exclusive agricultural or forestry zoning • Mitigation ordinances and banking • Non-transitional zoning • Concentrating rural development
Incentives and fiscal policies • Development impact fees or tax • Real estate transfer tax • Split-rate property tax • Infill and redevelopment incentives (reduction or exemption of tax/fees, subsidy, low-interest loans, etc.) • Brownfield redevelopment • Historic rehabilitation tax credits • Location efficient mortgages • Priority funding for infrastructure in the city centre	Incentives and fiscal policies • Right-to-farm laws • Agricultural districts • Transfer of development rights • Purchase of development rights, conservation easements • Use-value tax assessment • Circuit breaker tax relief credits • Capital gains tax on land sales

Source: OECD adaptations based on Bengston, D.N., J.O. Fletcher and K.C. Nelson (2004), "Public Policies for Managing Urban Growth and Protecting Open Space: Policy Instruments and Lessons Learned in the United States", *Landscape and Urban Planning*, Vol. 69, No. 2-3, pp. 271-286.

Adequate public facility ordinances (APFO): APFO also links the availability of public facilities to the rate of urban development. The difference with growth-phasing regulation is that APFO does not impose a building permit cap. Instead, APFO requires that developments be refused if the developers don't demonstrate that adequate public facilities are available or will be available when the impacts of new development occur. The state of Florida (United States) requires all local governments to adopt APFOs for selected local services and facilities (Bengston *et al.*, 2004).

Performance-based planning system: Performance-based planning regulates land development based not on the proposed use, location and dimensions of the development, but on the basis of the actual impacts it will have on neighbouring residents and businesses. It allows any land development provided it satisfies minimum levels of performance based on pre-determined performance standards. Fort Collins (state of Colorado, United States) has adopted a point system for evaluating development proposals. Development is allowed so long as the development plan achieves an established minimum number of points. In Australia, the federal government proposed a

national framework of performance-based planning principles and procedures for high-quality residential development. Every state/territory government has in turn adopted its own Australian Model Code for Residential Development (AMCORD). The AMCORD is centred on objectives and desired outcomes (performance), instead of on the specification of prescriptive standards. The performance-based system increases flexibility, sometimes at the expense of predictability as it is not guided by clear and specific rules and procedures (OECD, 2007a). The system has an important impact on the rate of development, as it was originally developed to streamline the development approval process.

Controlling "where" urban growth occurs

Locational management policies are more diverse than timing management policies. They are classified into public acquisition, regulation and fiscal policies (Table C.2). As some urban transport policies which promote public transport are closely connected to the locational management policies, they are also addressed.

Public acquisition

Public acquisition of land is often carried out for the primary purpose of protecting open space in and around urban areas. This is one of the most powerful government intervention and very often has quasi-eternal impacts on urban forms. Nineteenth century urban planners advocated systems of regional urban parks, parkways, and nature preserves (*e.g.* the Boston park system by Frederick Law Olmsted). The popularity of this approach in the United States is indicated by the fact that 30 of the largest 50 metropolitan areas have regional green space plans or are developing them (Brentston *et al.,* 2004). This tool is also widely used in European countries. Public interest of acquisition should be assured in the acquisition process and compensation should be paid for landowners. Though acquisition is the most certain public policy instrument for protecting open space, it is also the most expensive one. Acquisition costs as well as maintenance costs are important factors to take into account when making policy decisions.

Public acquisition is also used for the orderly development of suburbs. For example, the city of Stockholm began to aggressively acquire land in 1904 and in 1964 the city owned 70% of suburban land. In Sweden, more than 75% of new development between 1976 and 1985 took place on land owned by local authorities (Hiroi, 2009). In Germany, many cities acquired suburban land prior to development, due to the expansion of cities and the accompanying land speculation and the increase in land prices. However, because of the limitedness of public acquisition, land-use regulation and a re-adjustment system developed. In the United Kingdom, the Community Land Act was enacted in 1975, which generally declined development based on private incentives and transferred land from private to public ownership through eminent domain. Yokohama city of Japan implemented a pilot project to introduce a Green Tax to protect green land. It is being taxed on individuals and legal corporations from 2009-14. The tax revenue will be used for public acquisition of green land and support for green land conservation activities by civil groups.

Regulation (master plan, zoning and urban growth boundaries)

Comprehensive land-use planning (master plan) has been used as an effective instrument to control disordered farmland conversion to urban land, among them, urban sprawl in many OECD member countries. A comprehensive plan is a policy statement concerning the future use of land and development goals of a particular jurisdiction. It serves primarily to mitigate conflicts between different land uses and to co-ordinate related issues such as transport, economic development, housing, parks and recreation (Pendall *et al.*, 2006). This approach is more popular and established in Europe than in North America or Asia. In France, Germany, the Netherlands and the United Kingdom, where sustainable urban development is promoted, suburban development is generally strictly controlled by comprehensive land-use planning (Box C.1). The four countries have the following characteristics in common:

- authority of municipalities over city planning and land-use control;
- plot-by-plot detailed reviews of land use;
- emphasis on maintaining the *status quo*; general prohibition of new development in the suburbs;
- new development in suburbs must be incorporated in the land-use plan, *i.e.* new development requires approval in the planning process;
- regional planning at regional levels beyond the administrative boundaries of a single municipality, to which a city plan prepared by a single municipality should conform;
- planning process with an emphasis on governance, as a consensus-building mechanism between related levels of governments, in addition to strong public involvement in the process.

Unlike European countries, the central government in Japan plays an important role in functional zoning, but local governments are becoming more important. Five acts[3] are fundamentally important for territorial zoning. They are under the jurisdiction of three different ministries, and are thus often managed by different departments of local governments. Co-ordination proved to be an urgent challenge. Responding to this request, the National Land Use Planning Act was enacted in 1974 to integrate the five regulations in a comprehensive land-use plan.[4] Districts which need strict land-use regulations such as the Nature Environment Conservation Area are directly designated by the central government. Higher-level local government (Prefecture) designates the Urbanisation Promotion Zone, Urbanisation Control Zone and Agricultural Promotion Zone in co-operation with municipalities. Co-ordination of urban and rural use in urban fringe is still a challenging issue in Japan (Saizen *et al.*, 2006).[5]

Box C.1. **Comprehensive land-use planning in France, Germany, the Netherlands and the United Kingdom**

In France, new construction is generally only allowed in built-up areas. Construction in other areas is generally prohibited based on the "*principe de la constructibilité limitée* (principle of limiting the possibility of construction)" of the national *Code de l'urbanisme* (urban planning code). However, there are cases where construction in green fields is allowed based on the municipality's land-use plan. Municipalities can choose the level of control among several different methods. They have the authority to either formulate a *plan local d'urbanisme* (PLU, a local urban plan which includes detailed land-use regulations and sets the zones where construction is permitted) or a *carte communale* (the municipality map demarcating areas where construction is permitted), depending on the context of the municipality. PLUs are designed for a 10-15-year period and are appropriate mostly for urban municipalities (about 18 000 of them). Construction in green fields is only possible when allowed by the PLU or by the *carte communale*, otherwise, municipalities must comply with the national principle of limiting construction. To set up the PLU and the *carte communale*, municipalities must go through a public hearing and co-operational procedure with central government. When actual development does not conform to the plan, connection to infrastructure such as electricity and water can legally be refused.

For integrating and co-ordinating policies related to urban planning, housing, economic development, transport and commerce of multiple neighbouring municipalities, *Établissements publics de coopération intercommunale* (EPCI), and associations of EPCI and municipalities can voluntarily formulate and approve a *Schéma de cohérence territoriale* (SCOT) covering the area. A SCOT is not for regulating land-use, but for setting strategic urban restructuring policy through formulating items such as housing demand analysis, proposals for alignment and sustainable development (*Plan d'aménagement et de développement durable*, PADD), drafting basic guidelines for carrying out a PADD, maintaining built-up areas, demarcating natural and forest areas and transport projects. After fulfilling the necessary steps in the public hearing system, the SCOT must be approved by the coalition of municipalities. Municipalities cannot designate areas which are open to new development through PLUs or the *carte communale* unless they establish a SCOT and their plan complies with the SCOT. Therefore, municipalities who want new development in green fields need to establish a SCOT. The SCOT is a tool for regional co-ordination while keeping the initiative of municipalities. Local urban transport plans and housing plans must also be compatible with the SCOT in order to be legally valid and binding. Central government (*Préfet* of the prefecture) provides support to municipalities by providing related information and checking that the plan (SCOT, PLU, and *carte communale*) complies with national rules.

In Germany, the Federal Regional Planning Act (*Raumordnungsgesetz*, ROG) and the Federal Building Code (*Baugesetzbuch*, BauGB) are the two legal bases for land-use planning and development. Plans based on ROG (federal, state, municipal) do not have a direct legal effect at the municipal level, whereas the BauGB lays the legal basis of development for municipalities. Municipalities judge the use of each site based on the system of *im Zusammenhang bebauten Ortsteile* (built-up areas) and *Außenbereich* (outlying areas), reflecting on current land-use. According to the Federal Building Code, new construction is prohibited in outlying areas and development projects in this area are only permissible when social conditions are met or *Bebauungsplan* (B-plans or local development plans designating land-use, density, transport areas, green areas, etc.) allowing the development are formulated. If new land-use is expected to differ from those in neighbouring areas, a *Bebauungspläne* must be prepared regardless of built-up areas and outlying areas. Municipalities need to go through many processes, including parliamentary approval and citizen participation in formulating the plan, and the development must conform to the plan. The B-plan is generally drafted at a scale of 1:500 or 1:1 000 and theoretically it is valid forever. Alternatively, municipalities can enact a zoning ordinance drawing the line between built-up areas and outlying areas and when an outlying area has a

Box C.1. **Comprehensive land-use planning in France, Germany, the Netherlands and the United Kingdom** (*continued*)

certain volume of housing and does not have strong agricultural characteristics, the outlying area is treated as a built-up area and a building permit is applied. Approval of the B-plan and the ordinance by state government is not legally required but co-ordinated between the related levels of governments. Municipalities also should create an F-plan (*Flächennutzungsplan*, land-use plan) describing the overall land-use policy of the municipality. It is not required to regulate the land-use of each plot. F-plans are normally valid ten years, and drafted at a scale of 1:10 000. B-plans must conform to F-plans while F-plans need to conform to the regional plan since the municipality needs state government approval of the F-plan.

For regional co-ordination, state government or regional planning associations comprised of municipalities should establish a regional plan. Regional plans generally include desirable urban structures, desirable open space structures and desirable places for infrastructure, though each state defines the regional plan in a different way, with different components and planning processes. Typical examples are cases where state government plans functional areas covering big cities and their neighbouring municipalities. The F-plan of a big city is also regarded as a regional plan. In addition, multiple neighbouring municipalities can formulate common F-plans (*gemeinsamer Flächennutzungsplan*) with approval of the state government. Lower level plans must conform to upper level plans while lower level government must participate in the planning process of upper level plans. Co-ordination with the plan of neighbouring state or local government is also legally required. Land-use planning at all levels should involve public participation.

In the Netherlands, the Spatial Planning Act manages land development and encompasses three levels of government: national, state and municipal. The national planning agency issues broad guidelines for land use which provide an outline for the strategy, policy and purpose of land development, based on the ecological and economic environment of the entire nation. Municipalities should formulate *Bestemmingplan* (Bm Plans) in green fields for the purpose of controlling urban growth and can voluntarily formulate Bm plans in built-up areas, according to the Spatial Planning Act. Bm plans include land-use and building regulation, and can be used for both development and conservation purposes. New development requires updating the Bm plan and should conform to the updated Bm plan unless both the municipal Parliament and state authority give approval for the exemption. The planning process includes state government approval and public involvement. Bm plans should be updated every ten years and generally cover the entire national territory. Bm plans differ in the degree of details depending on the local context. Built-up areas and newly developed areas tend to have detailed Bm plans while areas where development pressure is weak do not generally need such detailed regulation. There is a certain level of flexibility in the contents of Bm plans. For example, Haarlem city introduced an interesting policy in the Bm plan called Red for Green which approves housing development in part of the area and uses the profit of the housing development for the purpose of green area conservation in the remaining area. Bm plans are formulated for areas when necessary, so a collection of Bm plans does not show overall land-use structure and policy of the entire municipality. Therefore, municipalities often voluntarily formulate structure plans to show the consistent land-use policy of the municipality.

Box C.1. **Comprehensive land-use planning in France, Germany, the Netherlands and the United Kingdom** (*continued*)

The state government can voluntarily formulate a regional plan but practically every state formulates a plan in accordance with broad national guidelines. The regional plan outlines future development and covers all or part of the state. Central government and the regional Parliament check the contents and approve the regional plan when it conforms. Bm plans should more or less conform to the regional plans of the state government. State governments consider a financial budget report on the plan's feasibility and public opinion as important factors in the approval phase of municipality plans. Central government can propose an alternative Bm plan if state government approves the Bm plan but the plan does not conform to national policy. In the planning process, related upper and lower level governments co-ordinate policy to achieve consensus. Land-use planning at all three levels should involve public participation.

The Balkenende 4 Cabinet, installed in 2007, has formulated a "Beautiful Netherlands" project. The central government does not preclude that regulation will become stricter when provinces and municipalities do not pay attention to the importance of green spaces. The central government prescribes that 25% to 40% of new housing will have to be realised in existing urban areas and building in the countryside is only allowed when there are no alternatives.

In **the United Kingdom**, development rights have been nationalised, and all development needs a permit from the government. The National Planning Directorate (Office of the Deputy Prime Minister) issues planning policy guidance notes (PPG), to which local planning agencies must adhere. Under the PPG, there has been a two-tier system, with structure plans (from 2004 Regional Spatial Strategies in England) at the county or regional level, and local plans (from 2004 Development Frameworks) at the municipal level. The regional level structure plans set broad guidelines for spatial development, and the municipality's local plans include detailed development proposals on a land parcel basis. The structure and local plans are evaluated and revised on a five-year cycle and have a ten-year time horizon.

Three PPG notes were particularly relevant to the issue of urban containment. PPG3 (housing) set a national target that by 2008 60% of additional housing should be on brownfield sites, thus greatly reducing greenfield development. In local plans, the search sequence for earmarking housing sites must start with re-use of brownfields, followed by urban extensions, and then new or expanded settlements beyond the urban perimeter. PPG7 (countryside) asserts that "the countryside should be safeguarded for its own sake" and emphasises the character of the landscape in addition to the more traditional concern with preservation of better agricultural land. PPG2 (green belt) expands on the need for wide and permanently designated belts and specifies inappropriate and disallowed development in them.

Source: Policy Research Institute for Land, Infrastructure and Transport, Ministry of Land, Infrastructure and Transport, Japanese Government (2006), *Suburban Land Use Control in Germany, France and the Netherlands* (in Japanese), Tokyo; Tan, R. *et al.* (2009), "Governing Farmland Conversion: Comparing China with the Netherlands and Germany", *Land Use Policy*, Vol. 26, No. 4, pp. 961-974; Millward, H. (2006), "Urban Containment Strategies: A Case-Study Appraisal of Plans and Policies in Japanese, British and Canadian Cities", *Land Use Policy*, Vol. 23, No. 4, pp. 473-485; OECD (2008), *OECD Rural Policy Reviews, Netherlands*, OECD Publishing, Paris.

Zoning policies are a core technique for limiting sprawl. On the one hand, up-zoning, small-lot zoning, minimum density zoning and mixed-use zoning encourage higher densities per square kilometre in urban areas. On the other hand, down-zoning, large-lot zoning, subdivision regulation, and exclusive agricultural/forestry zoning promote lower densities per square kilometre in rural areas. In rural areas, cluster zoning is also an option. Cluster zoning allows or requires houses to be concentrated together on small lots

or a particular part of a parcel of land, leaving the remainder open space. The undeveloped land may be owned by the developer, a homeowner's association, the local government or non-profit organisation, and may be protected under a restrictive covenant (Bengston *et al.*, 2004). Zoning policy is usually taken at the local level. Co-ordination with neighbouring municipalities could be a challenge as urban sprawl is usually a metropolitan area scale problem thus beyond the municipality's administrative boundary.

Related to zoning policies, other more specific regulations exist regarding land use. The first example is the Right to Farm Law that allows farmers and ranchers in peri-urban areas to keep land in agriculture by protecting them from nuisance lawsuits that may arise from land-use conflict between farmers or ranchers and new suburban residents (Bengston *et al.*, 2004). This helps to retain agricultural activity and a rural landscape in peri-urban areas. The second example is office regulation. From 1965 to 1979, the Greater London Council required firms to apply for "office development permits" before establishing new offices in the London area. In the Paris Capital Region, since 1955, both public and private firms are required to apply for an administrative authorisation. Regulations on offices were considerably loosened in 1985 but restored for large offices in 1990. Within specific zones, the government has levied taxes on new offices locating in the Ile-de-France region since 1982 (OECD, 2005a).

An **urban growth boundary (UGB)** is a dividing line drawn around an urban area to separate it from surrounding rural areas (Bengston *et al.*, 2004). It can promote dense urban development within the boundary and restrict development of non-urban land outside the boundary. UGBs and green belts (see below) are not intended to be static, but are adjusted according to new needs, in most cases every 10-20 years.[6] UGB is promoted in some US states such as Oregon, Tennessee and Washington. Similar zoning is implemented in many OECD member countries such as Japan and Switzerland. The evaluation of the UGB depends on the size contained for urban use. If the containment area is too large, which often happens due to political pressure (*e.g.* Japan and Switzerland), there is actually no effect for limiting urban growth. If the containment area is too small to sustain development pressure, it can have adverse effects on the value of farmland outside urban boundaries, increase the price of land and housing within the boundaries and leapfrog type of development beyond the restricted areas. When implementing the UGB, comprehensive understanding of the social, economic and environmental impact of the policy at a regional scale is indispensable (Box C.2).

Box C.2. **Urban growth boundaries in OECD member countries**

Portland, Oregon, United States: UGB of Portland is the boundary delineating the town area and countryside (agricultural and forestry land). Land within the boundary is developable over the coming 20 years.[1] Outside of the boundary, development is generally prohibited. The UGB is aimed at promoting the effective use of built-up areas, the effective provision of public infrastructure and services, and the conservation of good quality agricultural and forestry land. The Land Use Act of Oregon State in 1973 required municipalities to set the UGB. The UGB of Portland was approved by the metropolitan Parliament in 1979 and the state government in 1980. An organisation called METRO manages the UGB of the Portland metropolitan area (three counties and 24 cities). The expansion of the UGB is only allowed in the designated area called the "urban reserve". The necessity of expansion is basically considered every five years and must be approved by the state government. Urban reserve contains future developable land (30 years of land supply for development).

Box C.2. **Urban growth boundaries in OECD member countries** (*continued*)

Switzerland: The Swiss Land Use Plan is mandated by the Federal Law on Spatial Planning and developed by each canton. The cantons design a structure plan (*Richtplan*) that covers their entire area and envisions future spatial development. The structure plan must be approved by the Federal Council. Land-use plans, designed by municipalities, are subject to the above-level structure plans, regulate detailed land use and set the boundaries between building zones and non-building zones. The boundary is evaluated and adjusted to new needs every 10-15 years. Gennaio *et al.'s* (2009) analysis on four municipalities in the metropolitan area of Zurich revealed that the building zones originally instituted in the 1960s were extremely large due to optimistic population projections and political reasons. Reduction of the building zone is rare in Switzerland because the municipality is required to pay landowners for lost opportunities caused by the increased land-use regulation.

Japan: The Japanese economy grew rapidly in the 1960s. People were flowing into cities from the countryside and such rapid migration brought about uncontrolled land use in the suburbs, especially in the three metropolitan areas of Tokyo, Osaka and Nagoya. Japan's City Planning and Zoning Act was enacted in 1968 to control the situation. The vision based on the European and North American planning traditions was to separate urban areas (urbanisation promotion areas) from surrounding rural areas (urbanisation control areas). Urbanisation promotion areas included existing urban areas and areas that should be urbanised within ten years. Given pressure by landowners, vast urbanisation promotion areas were designated. Consequently, a number of fragmented farmland still remains in urbanisation promotion areas.

Ontario, Canada: The Province of Ontario has recently intensified regional planning efforts to address urban-suburban land-use inconsistencies through the Greenbelt Plan (enacted in 2005) and the Growth Plan for the Greater Golden Horseshoe (GGH) (2006). The Growth Plan aims to direct population growth towards built-up areas including 25 centres within the GGH area, in order to stimulate compact development and increase intensification. The Growth Plan specifies that at least 40% of all residential development should occur within existing built-up areas and the boundaries of the urban cores are delineated, to be refined by municipalities. The Greenbelt Plan delineates an area of environmentally sensitive and agricultural land at the heart of the GGH, protecting it from major urban development. In addition, Metrolinx, the provincial agency responsible for transport planning in the region, formulated a Regional Transportation Plan in 2008 that closely followed the vision of the two land-use plans. The Place to Growth Act requires that the official plans and the planning decisions of all municipalities in the GGH be brought into conformity with the Growth Plan.

1. Developable land estimation is based not only on density regulation but also on infrastructure capacity and environmental impact.

Source: Yokohari, M. *et al.* (2000), "Beyond Green Belts and Zoning: A New Planning Concept for the Environment of Asian Mega-cities", *Landscape and Urban Planning*, Vol. 47, No. 3-4, pp. 159-171; Gennaio, M-P, A.M. Hersperger, and M. Bürgi (2009), "Containing Urban Sprawl-Evaluating Effectiveness of Urban Growth Boundaries Set by the Swiss Land Use Plan", *Land Use Policy*, Vol. 26, No. 2, pp. 224.232; OECD (2009), *OECD Territorial Reviews: Toronto, Canada*, OECD Publishing, Paris.

Though the name is different, **green belt** policy is a kind of UGB. Unlike the UGB which is a line, a green belt is a zone that divides the city from the countryside. Strict regulation of land-use change is enforced in the green belt, sometimes accompanied by public or non-profit acquisition of open space or development rights. Green belt policy has a long tradition as a planning notion since the fall of most European city walls in the 18th and 19th centuries (Kühn, 2003). The greening of former wall areas constituted

boundary zones between the city and the countryside. At the end of the19th century when industrialisation in the United Kingdom caused negative externalities in British cities, Ebenezer Howard created a famous urban planning model called the "Garden City", a city surrounded by a green belt, which consists of an agricultural and recreational zone. In the United Kingdom, green belts were integrated in national urban policy during the 20th century. Many European cities such as Vienna, Barcelona, Budapest, and Berlin have followed this tradition. The concept has been transferred to non-European cities such as Hong Kong, Seoul, Tokyo, Toronto, Vancouver, Washington DC, Chicago, Boulder, Sydney and Melbourne (Kühn, 2003; Tang *et al*., 2007) (Box C.3). The rationales for the designation, significance and policy effect are diverse among cities. For example, Tang *et al.* (2007) argues that the green belt in Hong Kong is a "transitional zone", where development permits are given in a rather ambivalent and flexible way.[7] Buxton and Goodman (2003) analysed that the green belt in Melbourne was considered by many planners as a "holding zone for possible future urban development".

In the Netherlands, the green belt concept took a different shape. The Randstad is the most urbanised part of the Netherlands and contains the major cities of Amsterdam, Rotterdam, Utrecht, The Hague and Delft as well as a number of satellite urban areas. The green spaces surrounded by the urban belt are often called "green heart", embedded between several cities and are used for recreation (Box C.4).

The Finger Plan of the Copenhagen Capital Region is one of the most renowned examples of policy-mix of urban containment land-use regulation and **transit-oriented zoning (TOZ)**. In the plan, the rule for controlling sprawl and maintaining a compact urban form is the principle of accessibility, *i.e.* large office workplaces will generally have to be located within 600 metres of the closest public transport station (Box C.5). The other example of an integrated concept linking development and transport is seen in Luxembourg where IVL (Integrated Transportation and Territorial Development) is promoted in its spatial planning system (OECD, 2007c). In Switzerland, the idea of polycentrism is reinforced by strictly linking the financing of infrastructure facilities to settlement development by means of the cantonal directive plan, based on the Infrastructure Fund Act.

Urban service boundaries (USB), like urban growth boundaries, are a line drawn around a city or metropolitan area. USB delineates the area beyond which certain urban services such as sewer and water will not be provided. They are often linked with adequate public facilities ordinances (APFO, see above) that prohibit development in areas not served by specific public services and facilities. Some metropolitan areas using USB adopt a tiering system that attempts to direct public infrastructure into new areas in a particular order (Bengston *et al*, 2004). The priority funding areas initiative in Maryland (United States) also reflects the concept of a tiering system of infrastructure services, focusing investment in the city centre. This initiative is more of an incentive rather than a regulation.

Box C.3. **Green belt policies in OECD member countries**

Ontario, Canada: In Canada, land use is a provincial responsibility and each province has its own legislation, policies and programmes regarding land management and use. Ontario, centred around the Greater Toronto metropolitan area (GTA), is the most populous province in Canada. The Greenbelt Plan, which was established under the Greenbelt Protection Act of 2005, was initiated to address the following issues: urban sprawl, preserving agricultural land and environmental protection. The plan limits development only in a designated portion of rural land in close proximity to the GTA. The greenbelt consists of approximately 1.8 million acres (728 000 hectares), consisting of designated protected land under the Niagara Escarpment Plan of 1973 and the Oak Ridge's Moraine Conservation Plan of 2001 and newly designated land to make a continuous band around the largest urban concentration in Canada. The Greenbelt Protection Act calls for a renewable ten-year Greenbelt Plan and the establishment of a council involving government and non-government bodies. Municipalities are responsible for ensuring the conformity of local decisions and official plans with the Greenbelt Plan.

Seoul, Korea: The green belt surrounding Seoul is designated on a 15 kilometre radius surrounding densely inhabited areas of the city. The land area totals 1 567 square kilometres, 29% of the National Capital Region. In the green belt, all development activities are prohibited in principle and only limited projects listed in the regulations can be permitted by the head of the related local authorities. It was largely imposed for military reasons rather than simply urban containment and countryside protection (Yokohari *et al.*, 2000). The green belt was supposed to serve as an "oxygen tank" to ensure minimum natural preservation and is regarded as one of the few successful green belt experiences in Asian mega-cities. However, the evaluation of green belt policy in Seoul is controversial. It is assessed to have driven a part of the population out of the city but most of the out-migrants seem to have simply leap-frogged into the surrounding Capital Region, creating satellite cities. Due to higher commuter flows from outer suburbs, infrastructure costs increased while traffic congestion and air pollution were exacerbated. The green belt also resulted in an artificial scarcity of developable land, which increased land and housing prices in the city. The government is progressively releasing land-use regulations and Seoul is looking at its own way to absorb negative externalities.

Barcelona, Spain: The territory (101 180 hectares) surrounding the urban area of Barcelona is undeveloped or agricultural land where development is heavily restricted by law. It is a network of independently managed natural and agri-parks that form a "grid" across the Barcelona Metropolitan Area (BMA). The policy to protect natural areas became effective in 1972 when the Law governing Land Use (*Lei del Sól*) led to the creation of the first six parks. The hills that cut through the BMA are protected from urban sprawl through nature parks connected by agricultural parks that form "green corridors". A new plan for the next 50 years has recently added a new area to the grid and has increased co-ordinated management of the park network. Major objectives of the agricultural parks are to guarantee the continuity of agricultural uses and reduce speculative pressures while undertaking specific programmes for developing economic, environmental and socio-cultural potential.

Source: OECD (2009), *OECD Territorial Reviews: Toronto, Canada*, OECD Publishing, Paris; OECD (2005), *OECD Territorial Reviews: Seoul, Korea*, OECD Publishing, Paris; OECD (2001), *OECD Territorial Reviews: Korea*, OECD Publishing, Paris; Yokohari, M. *et al.* (2000), "Beyond Green Belts and Zoning: A New Planning Concept for the Environment of Asian Mega-cities", *Landscape and Urban Planning*, Vol. 47, No. 3-4, pp. 159-171.

Box C.4. **Green heart policy in the Netherlands**

Dutch spatial policy established eight buffer zones in the Randstad region in 1958 as a way to control urban sprawl and maintain green space (green heart). While there has been continual pressure for urban expansion, there continues to be a considerable amount of green space (160 000 hectares) for a large urban population. A key factor to success is strong land-use controls accompanied by government acquisition of land. By acquiring land, the government guarantees that its use will not be modified. Combined with a comprehensive land plan that originates at the national level and is reinforced at the provincial and local levels, this assures that development pressures are shifted away from land designated as green space. The green heart has had the status of a national landscape since 1998. The policy with respect to the national landscape is that natural and cultural/historic qualities should be maintained and if possible strengthened, in combination with their significance for recreation. The three provinces concerned (North and South Holland and Utrecht) have come up with a Green Heart Programme which is co-funded by the central government. Symbolic and innovative development plans have been formulated that are essential for the green heart.

Source: OECD (2008), *OECD Rural Policy Reviews, Netherlands*, OECD Publishing, Paris; OECD (2007), *OECD Territorial Reviews: Randstad Holland, Netherlands*, OECD Publishing, Paris; Kühn, M. (2003), "Green Belt and Green Heart: Separating and Integrating Landscapes in European City Regions", *Landscape and Urban Planning*, Vol. 64, No. 1-2, pp. 19-27.

Box C.5. **Finger Plan in Copenhagen, Denmark[1]**

The first spatial plan for Copenhagen was the Finger Plan of 1947. The urban form it proposed was in the form of a hand: an urban core at the centre, with four nodes as the fingers along which further urbanisation was to take place. The space in between the fingers was supposed to remain green areas. The Finger Plan aimed to address the main trend of sub-urbanisation and far-sightedly linked land use and public transport. Since the first Finger Plan, spatial plans of Copenhagen have consistently promoted the clear demarcation of urban and rural land. One of the rules for maintaining a compact urban structure is the principle of accessibility, *i.e.* large office workplaces with more than 1 500 square metres of floor space and big impacts on traffic will generally have to be located within 600 metres (ten minutes on foot) of the closest transport station. All tiers of government, national, regional and local, are involved in the spatial planning of Copenhagen.

The Finger Plan has been successful, but has not prevented urban sprawl. Land-use planning in Copenhagen has been successful in keeping large green wedges between the urban fingers. Due to population growth and the outward development of economic activity, however, the fingers have become much longer and "fatter" than originally intended. The original Finger Plan provided for industry to locate at the transitional place between the palm and the finger, because the planners thought that these locations were in the best position to take advantage of the ring road and railways. However, large industrial areas and regional centres have progressively been established in the fingers themselves. Now the fingers are even reaching large towns that were formerly independent.

Box C.5. **Finger plan in Copenhagen, Denmark** (*continued*)

The 2007 Finger Plan tries to accommodate expansion, setting out town fingers with potential for new urban areas and requiring municipal plans to contain provisions for phased development of the new urban zones. An additional sixth finger has emerged, the Øresund Bridge to Malmö, Sweden, reflecting the continuing increase of commuters from Malmö. At the same time, the Finger Plan intends to revive the principle of proximity to railway stations that was introduced in 1989 but weakened by a lack of regional political commitment during 1990s. However, the plan does not show clear initiatives for concentrating activities and population in the palm area at a regional level. This conflicts with the reality of land-use potential of the city of Copenhagen. There are undeveloped areas that provide the possibility of building some 17 million square metres, which corresponds to approximately 50 years' construction for diverse businesses.

1. A Finger Plan also exists for Amsterdam. Unlike in Copenhagen, the green spaces between the fingers of Amsterdam are hardly used for recreational purposes and are sometimes inaccessible.

Source: OECD (2009), *OECD Territorial Reviews: Copenhagen, Denmark*, OECD Publishing, Paris; OECD (2008), *OECD Rural Policy Reviews, Netherlands*, OECD Publishing, Paris.

Fiscal and financial policies (tax structure and other financial incentives)

Property tax structures affect land-use patterns. Distortions created by the property tax may result in the inefficient spatial expansion of cities, which makes the tax one possible cause of urban sprawl (Brueckner and Kim, 2003). In the Toronto metropolitan area, many municipalities in the regions (including the City of Toronto until 2002) have, for example, generally higher property tax rates for multi-residential rental apartments than for condominiums and single detached homes, thereby subsidising urban sprawl. Similarly, higher commercial property taxes in the City of Toronto compared to the suburbs have contributed to dispersing firms across the region. The different tax rates between residential use and commercial/business use also affects land-use patterns.[8]

Split-rate property tax, placing proportionally higher taxes on land than on built structures, would make it more costly to hold on to vacant or under-utilised, centrally located sites. The split-rate property tax is in sharp contrast to the conventional equal-rate system that applies the same tax rate to land and to structures built on it. Reducing the total tax burden on land-intensive development and redevelopment could facilitate revitalisation and the replacement of obsolete buildings in older central cities. The effect is to reduce the tax burden on land-intensive uses (*e.g.* apartments) and increase the tax burden on land-extensive uses (*e.g.* parking lots) (Bengston *et al.*, 2004). This form of tax is implemented in Sydney, Hong Kong, and in Pittsburgh, Harrisburg and many other Pennsylvanian cities in the United States along with cities in Denmark and Finland. However, because the split-rate tax may provoke premature land conversion in outlying areas, effective regulatory mechanisms should be designed to avoid unintended consequences. A disadvantage of the tax could be the transaction costs of valuing urban land values independently from built structures.

Use-value tax assessment in peri-urban areas also provides farmer-landowners with an incentive to continue using land for agriculture, because land is taxed at a lower agricultural or forestry value compared to the higher values associated with development uses. This policy typically includes requirements that the owner be actively engaged in farming (Bengston *et al.*, 2004). In the case of some Japanese metropolitan areas

including Tokyo, designated farmlands are levied lower property tax based on agricultural use and the designation basically lasts 30 years.

More private banks may also wish to contribute to addressing urban sprawl through measures such as **location efficient mortgages** (LEM), if provided support from governments (Box C.6.).

Box C.6. **Location efficient mortgages**

Location efficient mortgage (**LEM**) increases the amount of money homebuyers in urban areas are able to borrow by taking into account the money they save by living in dense, walkable neighbourhoods that are close to public transit. With traditional mortgages, there is a limit on how much money is available based on the purchaser's income. In high density, transit-rich environments, the cost associated with transport is greatly reduced. This reduction is, for example, USD 350-650 per month in Chicago, Illinois. In effect, it allows urban dwellers who depend less on automobile use to purchase a more expensive home. By obtaining a larger mortgage with a smaller down payment, LEMs would award families who want to live in transit-oriented districts. Essentially this could be achieved by raising the typical amount of standard loan underwriting from 28% to 39% of gross monthly income by recognising transport-related cost savings, or in more technical terms, the location efficient value. Application of this policy would, however, carefully weigh the advantages of densification and traffic congestion reduction with its shortcomings, namely higher mortgage default payment rates amongst the LEM borrowers. Increased purchasing power is granted based on the presumption that the household is actually taking advantage of reduced car use, though the programme does not limit actual use or ownership of automobiles. As of April 2006, LEMs were available in Seattle (Washington), Chicago (Illinois), Los Angeles (California) and San Francisco (California) in the United States. These loans are resalable on the secondary market through the Federal National Mortgage Association (FNMA).

Source: OECD (2009), *OECD Territorial Reviews: Toronto, Canada*, OECD Publishing, Paris.

Incentives for developers can encourage high-density urban development in city centres, but this development must still respond to demand. For example, **brownfield redevelopment** can facilitate the reuse of industrial lots in the city.[9] On the one hand, there are many barriers for the redevelopment, such as expensive land prices, demolition costs of existing facilities, and limited land use by zoning regulation and cleanup costs. On the other hand, there are many external benefits from brownfield redevelopment, such as urban revitalisation, increased asset value of the site and surrounding sites, increased tax base, increased employment, environmental protection, effective use of existing infrastructure and preventing of urban sprawl. Many OECD member countries such as Canada, the United States and EU countries actively promote brownfield redevelopment as an important policy that contributes to sustainable development and mitigation of sprawl (Box C. 7).

Box C.7. **Examples of brownfield policies in OECD member countries**

United States: The United States classifies brownfield sites by externality (social and economic), contamination risks and degree of urgency. In 1980, the US government enacted the Comprehensive Environmental Response, Compensation, and Liability Act (CERCLA), commonly known as Superfund. This law created a tax on the chemical and petroleum industries, and the tax went to a trust fund for cleaning up abandoned or uncontrolled hazardous waste sites. The CERCLA established regulation regarding closed and abandoned hazardous waste sites and made clear the liability of persons responsible for the release of hazardous waste at these sites. Because of the strict regulation, developers and financial institutions kept hazardous sites untouched and preferred greenfield development. Many state governments responded to the problem by providing economic incentives and liability exemption to developers. Pushed ahead by the state governments, the federal government enacted the Brownfield Act in 2002 to support the activities of state governments. As shown in the table, brownfield sites usually do not have high contamination risks. The rationales for supporting the redevelopment come not only from environmental reasons but also from the economic impact on the region. According to the EPA, their investment in the Brownfield Program has resulted in many accomplishments, including leveraging more than USD 6.6 billion in brownfields cleanup and redevelopment funding from the private and public sectors and creating approximately 25 000 new jobs (EPA, n.d.).

Classification of brownfields in the United States

	Large externality	Small externality
Large contamination risk & high degree of urgency	Superfund sites	Superfund sites
Small contamination risk & low degree of urgency	General brownfield site with public investment for redevelopment	Site with small prospect for redevelopment: environmental control only

United Kingdom: As the world's first industrialised nation, the United Kingdom experienced rapid urban growth. The scale of land contamination is large reflecting the history of industrialisation in the city. Increasing housing needs in the city centre to protect the rural landscape in peri-urban areas increased the attention given to brownfield development. The UK government increased brownfield development targets for regional/local planning authorities from 50% to 60%. In the United Kingdom, contaminated land has been dealt with primarily through Part IIA of the Environment Act of 1995 and the development permit process of land-use planning. Similar to the United States, the United Kingdom takes a risk-based decision-making approach by using a source-pathway-receptor pollutant linkage concept, soil guideline values and the suitable use principle as the standard for making decisions about the need for and level of remediation, which are decided on a case-by-case basis, taking into consideration the existence of harm and the possible impact on the other factors (*e.g.* human health, ecosystem). The government provides tax incentives and other financial aid (*e.g.* dereliction aid and gap funding scheme) to get rid of the great barrier for brownfield development which usually has higher financial development costs than green field development.

Classification of brownfields in the United Kingdom

	Significant harm, pollution of controlled waters	Less than significant harm, no pollution of controlled waters
No immediate prospect of development	Part IIA sites	No action
Immediate prospect of development	Part IIA sites Planning permit process	Planning permit process

Source: US Environmental Protection Agency (n.d.), *www.epa.gov/brownfields*; Luo, Q., P. Catney and D. Lerner (2009), "Risk-based Management of Contaminated Land in the UK: Lessons for China?", *Journal of Environmental Management*, Vol. 90, No. 2, pp. 1 123-1 134.

In peri-urban areas, **transfer of development rights (TDR)**, purchase of development rights and conservation easements are often used as incentives to protect open spaces. These policies are based on the concept that land ownership involves a bundle of rights that can be separated (for example, surface rights, air rights and development rights). TDR allows the sale and transfer of development rights from a particular parcel of land to other properties. Future use of the original parcel is then protected from development by means of a permanent conservation easement or deed restriction prohibiting development. This is compensation for the landowners for regulatory restrictions that reduce property values. Government, non-profit organisations for protecting open space are potential purchasers of development rights (Bengston *et al.*, 2004). Administrative complexity is a drawback of this policy. In the United States, the federal government supports the purchase of development rights of state governments.

Urban transport policies

Transport policy significantly affects land-use patterns. Swiss spatial planners often call transport policy and transport infrastructure "hidden land-use planners" (OECD, 2002b). The Smart Growth policy package usually includes the promotion of public transport as a way to increase density surrounding the transport nodes. Private vehicle use and suburban low density lifestyles are often regarded as a package. Public transport is often promoted in many OECD member countries to avoid congestion and increase the attractiveness of city centres, increase social integrity by providing cheap modes of transport, and decrease the environmental burden. In addition to the policy which directly addresses the promotion of public transport, some OECD member countries adopt diverse complementary policies. The following are examples of these policies.

Congestion charge is a programme whereby the government directly charges users for using a congested section of a transport network during a congested time (Box C.8). Road pricing has been attracting more attention because of the rather recent introduction of congestion charges in London and Stockholm. The purpose of the congestion charge is not only financing and funding road infrastructure but also introducing demand management in the transport system. By charging for use of the congested section during specific hours, the government can deter drivers from using those sections. Reducing the impact of the congested traffic on the environment and health is often an additional objective. Governments often use revenues generated by the charge for the expansion and improvement of public transport networks.

High-occupancy vehicle (HOV) lane: HOV lanes are highway lanes on which only vehicles with a minimum number of occupants (usually two or three) are allowed to drive, in order to promote car pools. Vehicles with less than the minimum number of occupants are in some cases permitted to use these lanes if they pay a toll. The Greater Golden Horseshoe (Toronto and the surrounding area) of Canada has a limited number of HOV lanes, but by 2031, a network of more than 300 kilometres will be in place as part of Ontario's HOV Lane Network Plan for the Greater Golden Horseshoe. In the United States, several of these HOV lanes have been found to be ineffective, because car pooling did not have a wide appeal. In order to use their excess capacity, several HOV lanes instituted in the United States are being transformed into High-occupancy Toll (HOT) lanes (OECD, 2010).

Box C.8. **Examples of congestion charges in selected countries**

The case of London has been widely analysed in the public policy debate. The following conditions made the implementation feasible in the Londonian context.

- Severe transport bottlenecks in the city centre: road congestion was severe, while the expansions of roads were extremely difficult because of the already overcrowded environment.
- Transport structure (cars and other modes of transport): relatively good alternatives to private cars existed, such as walking, cycling, taxis, buses, and subways. Only about 10% of peak period trips were made by private cars. Many of the automobile commuters lived outside the city. The city did not have a large residential population inside of the area compared to outside of the area. While a wide array of people benefited from the reduced congestion, the number of people who elected to pay the congestion charge was limited.
- Political will: the leadership of Mayor Ken Livingstone was strong and consistent throughout the process. He also integrated the congestion charge into the wider scheme of the London Plan and the Mayor's Transport Strategy, to make his claim convincing and appealing.
- Legislative support from the national government: the national government provided the Greater London Authority (GLA) with the authority to introduce the congestion charge through the Greater London Authority Act of 1999 and the Transport Act of 2000.
- Extensive public consultation: the GLA ensured the comprehension and support of the public and business in the decision-making process.
- Appropriate institutional setting: a professional team in Transport for London supported the management of the system.
- Technological development: technological development and the accompanying price decrease of facilities for congestion charge management made implementation feasible.

In designing a detailed scheme of congestion charges such as the area and time covered, vehicle type charged, price level and structure (flat, gradual or variable), discount and exemption, policy makers should analyse the following fundamental issues:

- Geographic structure of the city and congestion analysis: where is the congestion severe? Area (polygon) or main avenues (line)? Are there any physical alternatives, such as road expansions? What is the residential density in the area? Who contributes to the congestion in the city? Do most residents or commuters live outside the city?
- Impact on economic efficiency: how much will the congestion charge improve traffic conditions in terms of time and money? What are the impacts on business?
- Financial sustainability: will the revenue raised cover the initial costs and operating expenses?
- Distributional effect: given that exemptions and discounts usually accompany such plans, the distributional effect is usually complex. Who will benefit and lose from the introduction of the plan? Are the impacts progressive, regressive or neutral?
- Impact on general national and local finance: what are the impacts on fuel tax, parking revenue if managed locally, cost of parking enforcement, etc. Which sector of national and local governments increases or decreases the fiscal balance?
- Possibility of improving alternative modes of transport before introducing the congestion charge: how can alternative modes of transport be improved and how much can it mitigate the impact of the congestion charge?

Box C.8. **Examples of congestion charges in selected countries** (*continued*)

- Possible impact on the surrounding area: how much impact will there be on the surrounding area and where will the through-traffic go? How much additional parking should be supplied close to the boundary? What are the land-use impacts?
- Impact on environment: given that climate change is an increasing concern, governments are highly likely to add the environmental consideration in the congestion charge scheme. Will the congestion charge help to reduce CO_2 emissions or worsen them by increasing through-traffic?

London: The GLA originally introduced the London congestion charge covering parts of Central London in February 2003, and extended the area into part of west London in February 2007. The extension increased the resident coverage from 150 000 to about 230 000. The main objectives of the charge are to reduce congestion and to raise funds for investment in London's transport system. The charge was originally GBP 5 per day, but was later increased to GBP 8 per day. An entity called Transport for London (TfL) manages the charging system. The TfL estimated that the level of traffic of all vehicle types entering the central Congestion Charge Zone was consistently 16% lower in 2006 than the pre-charge levels in 2002. TfL also reported improved air quality in the zone. TfL's annual report for 2006-7 shows that revenues from the congestion charge were GBP 252.4 million over the financial year (8.5% of TfL's annual revenue). It spent more than half the revenue on the operating costs of the charging system. After deducting operating costs and other charges, net income was GBP 89.1 million. Law requires that TfL spend all net income raised through the charge on reinvestment in London's transport infrastructure. TfL invested about 80% of net income in improving the bus network. New routes were introduced and existing routes extended, and the frequency of service increased. As a result, bus use increased in Central London.

In October 2008, GLA introduced a completely new charging structure. The new system charges cars based on potential CO_2 vehicle emissions. Cars and certain pickup trucks will be charged GBP 25 per day, while low-emission cars will be free of charge.

Stockholm: Stockholm introduced a congestion charge on a permanent basis in August 2007, after a seven-month trial period between January 2006 and July 2006. The charged area covers Stockholm city centre. The trial was successful, with reduced traffic and improved air quality. Before the national government made this decision, municipal governments held a referendum regarding the permanent introduction of the congestion charge. The result in the municipality of Stockholm was 53% in support of the charge. However, the surrounding municipalities unanimously disapproved of the introduction of the charge, voting against it by between 54.1% and 70.4%. Many residents in the surrounding municipalities commuted to the congestion charge area and were heavily impacted by the charge. After the referendum, the government took the result in the municipality of Stockholm into consideration and implemented the congestion charge.

The national government introduced the congestion charge as a tax and has managed the revenue. The government will use the revenue entirely for new road construction in and around the Stockholm area, including the construction of a new major bypass road, while the government spent all the revenue on public transport in Stockholm during the trial period. The national government also provides grants to the transit agency to compensate the additional costs due to the introduction of congestions charge.

Box C.8. **Examples of congestion charges in selected countries** (*continued*)

Norway: Congestion pricing in Norway is different from that in London and Stockholm, and is levied as tolls in the main "ring road" rather than as an area-based charge. Though it was initially intended to raise revenue to finance the ring road, it created the same impact as a congestion charge. The revenue has also provided funds for improvements in public transport and environmental projects.

Singapore: Singapore has the world's most sophisticated and long-standing congestion charge system, thanks to the small geographic area of the city state (42 kilometres east to west and 23 kilometres north to south) and to the strong political will of the dominant political party. It operated the Area Licensing Scheme from 1975 to 1998, and moved to a fully Electronic Road Pricing (ERP) scheme in 1998. Not only did it create a cordon for vehicles entering the central city or the central business district, it has also implemented congestion charges on expressways that are not in the central city. The fare is automatically deducted from a pre-paid smart card when a vehicle passes under the ERP gantry. The fares depend on the time, place and vehicle type so as to relate them to the actual level of congestion. The rates for different types of vehicles are set to be approximately proportional to their passenger car equivalent values. A method called shoulder pricing is used, which involves increasing the rate in steps every half hour before the peak and decreasing it after the peak. Charges are relatively low: the maximum rate for cars is SGP 3 to enter the central business district. But the traffic flow has been quite sensitive to the charge. This is the most developed type of demand management tool in the world, linking the demand for the road to the supply of the road (road capability of achieving reasonable automobile speed).

Source: OECD (2009), *OECD Territorial Reviews: Toronto, Canada*, OECD Publishing, Paris; OECD (2009), *OECD Territorial Reviews: Copenhagen, Denmark*, OECD Publishing, Paris.

Gasoline taxes: Gasoline tax has an effect somewhat similar to a congestion charge by taxing car use, but it is a less refined an instrument because it cannot be used to regulate congestion or be adjusted to vehicle emissions. Taxes of this kind are, however, easier to implement than a congestion charge because they require no investment in a charging system. In the United States, low gasoline taxes have kept the cost of automobile operation low compared to costs in Europe, where gas taxes are much higher (Bertaud *et al.*, 2006.).

Bus rapid transit (BRT): Metropolitan areas are shifting increasingly from light rail to rapid bus-based public transport systems. A key element of BRT is that the BRT buses have their own dedicated right of way (sometimes two lanes, so that BRT buses can overtake each other). The BRT has successfully been implemented in metropolitan areas as diverse as Brisbane, Curitiba, Bogotá, Pittsburgh and Ottawa. There are several elements underlying this shift to BRT, including value for money, service capacity, affordability, relative flexibility and network coverage. Advanced BRT systems such as the ones in Curitiba, Bogotá, and Sydney have a capacity equal to or greater than that of light or heavy rails. Not only is the capacity of BRT high, it is also more cost effective: a dedicated BRT system can carry the same number of people as light rail for a typical cost of four to 20 times lower than a light rail system, and ten to 100 times lower than a heavy rail system. Typically USD 1 billion will buy 400 kilometres of dedicated BRT, in contrast to 15 kilometres of elevated rail or 7 kilometres of underground rail (OECD, 2010).

Lessons learned

Many studies have shown that the urban growth management policies mentioned above increased the density in urban areas. However, in many cases, low-density development occurred beyond the controlled area (leap-frogged development) and caused hikes in land and housing prices in urban areas. Some even argue that famous urban containment policies such as the urban growth boundary of Portland (United States), the Green Heart Strategy in the Randstad (the Netherlands) and the Finger Plan in Copenhagen (Denmark), only slowed the pace of urban sprawl, but did not stop it (Gennaio *et al.*, 2009).

Evaluating urban growth management policies is a challenging task for the following reasons. First, most policies lack an explicit goal. Very often, policies have multiple objectives which cannot be easily quantified. Sometimes, the goal changes with socio-economic trends, for example from conservation of agricultural land to rural amenity to environmental improvement. Second, it is difficult to acquire data on an appropriate geographic scale. The effect of policy goes beyond the jurisdiction of the city implementing the policy, sometimes impacting outlying areas (in the case of leap-frog development). The geographic scale adopted is highly likely to influence the evaluation results of the policy. The scale problem is a challenge especially for making international comparisons. Third, the effect of policies spans over a long time. For example, land-use regulation usually does not have a retrospective effect, which means existing buildings cannot be replaced quickly even when up-zoning or down-zoning is implemented. Fourth is the lack of knowledge regarding the counterfactual case. Because land use is affected by many factors (socio-economic trends, value systems, etc.), it is difficult to evaluate the effect of the policy independent from other factors (Genaio *et al.*, 2009; Bengston *et al*., 2004). Fifth, growth management policies are usually adopted in policy packages, for example, in combination with land-use regulations and incentives for infill development. It is difficult to delineate the effect of one policy from the others.

However, in spite of these difficulties, we can draw some qualitative policy lessons from the detailed case studies of implemented urban growth management policies.

- First, policies should be implemented in policy packages. Individual techniques should be consistently interlinked and co-ordinated. For example, though land-use regulation such as urban growth boundaries maintains the *status quo* and slows the pace of urban sprawl, it does not create a desirable compact urban form in itself. Financial incentives to facilitate development within the boundary complement the objective of the urban growth boundary. Uncontrolled urban growth is difficult to tackle via a sectoral approach and remains a key underlying problem that influences outcomes in many different sectors (Box C.9).
- Second, detailed design of policies at the implementation stage largely affects the impact of policy. How and where is the urban boundary zone drawn? How much development is approved in the green belt? How is the policy monitored? How is illegal development sanctioned? These are all important but difficult questions to tackle. The detailed design of the policy (especially regarding regulation) and its implementation are important.
- Third, multi-level and horizontal co-ordination is indispensable for effective policy implementation. Horizontal co-ordination includes co-ordination across sectors, for example, transport and land use, and co-ordination among neighbouring communities. Because urban sprawl often transcends

municipalities' boundaries, co-ordination at the regional level (or metropolitan area level) can be effective.

- Fourth, most successful cases have involved citizens in the policy process. More fundamentally, an appropriate balance of urban and rural land depends on the context of each locality and there is no universal right answer or one-size-fits-all approach. How to use land concerns the interests of private individual entities and therefore it is a highly political issue in all OECD member countries. Therefore, legitimacy needs to be assured through stakeholder participation (Bengston *et al.*, 2004).

Box C.9. **Looking back on history: fight against primary city phenomena**

Some countries such as France, Japan, Korea and the United Kingdom have taken further steps to control "primary city" phenomena, especially in their capital cities during the peak of urbanisation. Their experience might be insightful for currently urbanising countries (often rapidly developing OECD non-member countries) which have mega-cities such as Beijing and Rio de Janeiro. They adopted a "package" of policies to control urban growth.

Korea: "Special Measures for the Restriction of Population Growth in Seoul" was introduced in 1964 in order to curb excessive concentration of population and economic activities in Seoul. The act included the relocation of certain government institutions and university branches outside of Seoul, the creation of new cities within the Capital Region and financial incentives to relocate firms. The Capital Regional Readjustment Planning Act (1982) divided the area into three main categories: congestion restrained zones, growth management zones and nature conservation zones. Depending on the category, the central government prohibited or controlled the construction of new factories and buildings, levied overconcentration taxes (sometimes equal to 10% of the construction cost), and banned or administered the creation of new universities. The philosophy behind the relocation of public institutions, universities and businesses was to keep population-attracting facilities away from Seoul. However, current global competition has made the Korean government reconsider the constraint policy to improve the competitiveness of Seoul (OECD, 2001, 2005a).

Japan: Throughout the 1970s, the process of concentration in major metropolitan areas intensified, despite policy measures aimed at controlling this process. During the most intense phases, the annual influx of population into the Tokyo metropolitan area exceeded 300 000. As a result, additional measures were introduced to increase the incentives for businesses to locate in non-metropolitan areas. Planning for Japan's metropolitan areas has endeavoured to control concentration in urban areas. The first long-term development plan for the greater Tokyo area was formulated in 1959 and modelled on the Greater London Plan. The Basic Development Plan for the National Capital Region proposed the creation of greenbelts along the urban periphery and the establishment of satellite towns. In the meanwhile, strong pressure to expand into and beyond the greenbelts necessitated a second Basic Plan (1968), which aimed to anticipate further expansion of the metropolitan area. The government proposed suburban development and redevelopment areas 50 kilometres from the city centre and, even further away, urban development areas that would attract industry from central areas in which industrial sites were increasingly restricted. The third plan (1976) introduced the concept of a multi-polar structure, and this was further developed in the fourth plan (1986) which promoted a multi-polar structure with self-sufficient business core cities. The most recent plan (1999) is based on a "distributed network structure", a strongly polycentric metropolitan system. A similar transition from core-periphery to polycentric urban patterns is apparent in the other metropolitan areas as well.

Box C.9. **Looking back on history: fight against primary city phenomena** (*continued*)

Based on the 1972 Industrial Relocation Promotion Law, financial incentives encouraged factories in restricted metropolitan areas to relocate or establish new factories in designated areas. The financial incentives included direct subsidies provided by METI (Ministry of Economy, Trade and Industry) and longer term loans by bodies from some public financial agencies, which had attracted large numbers of enterprises to the priority regions. In terms of impact, the policy was successful in some respects. The volume of industrial output from Tokyo and Osaka declined between 1985-1992 from 18% to 15% and the corresponding figure for the target zones increased from 27% to 32%. Data by region suggest that some of the change in share of both output and employment was a result of spreading out within the Kanto (Tokyo) and Kinki (Osaka) regions, *i.e.* short distance relocations away from congested coastal areas to the hinterland part of the region (OECD, 2005b).

Source: OECD (2005), *OECD Territorial Reviews: Seoul, Korea*, OECD Publishing, Paris; OECD (2001), *OECD Territorial Reviews: Korea*, OECD Publishing, Paris; OECD (2005), *OECD Territorial Reviews: Japan*, OECD Publishing, Paris.

Inappropriate implementation of urban growth management sometimes causes unexpected and undesirable effects on the region. First, geographical mismanagement brings leap-frog development farther away from city centre and beyond the controlled zone. Second, lack of incentives to replace existing buildings for up-scaled buildings within strictly limited urban areas is highly likely to increase rent and housing prices, *i.e.* affordable housing issue. Segregation by income might occur, with low income people living in disadvantaged areas. Landowners or developers within the urban zone might monopolise the produced gain at the expense of low income households. Third, growth control might decrease the potential for economic development by limiting the physical places to invest in. Strong regulation also has some effect on limiting competition between existing and new businesses.[10] In sum, distributional effects and impacts on economic efficiency should be seriously taken into account to achieve political consensus for the urban growth management policy.

Financing urban growth in an efficient and equitable way

In some countries, given the inter-governmental system of fiscal roles and responsibilities, land-related revenues occupy a large share of financial sources for local government-provided public services, infrastructure and economic development programmes. Therefore, municipal governments have strong fiscal incentives to acquire and convert agricultural land into constructible land.[11] In the Netherlands, many local authorities have a land development corporation that buys agricultural land, prepares it for building activities and either sells it to builders, builds on it, or a combination of the two. In 2005, up to 22% of total municipal own-source revenues came from land exploitation. However, skimming off land value windfall gains by the local authorities has decreased because they lost their monopoly on the acquisition and preparation of land for housing development (OECD, 2008a). In China, provincial governments cannot determine either the base or the rates of local taxes (OECD, 2009d). Revenues from

leasing land-use rights accounts for 30-50% of annual fiscal revenues for most cities, and up to 80% in smaller cities (Huang Xianjin, 2005, cited in Kamal-Chaoui, *et al.* [2009]).

The dependence of local government on land-related revenue causes inter-municipal competition for attracting development. For example, land lease is the largest form of own-source revenues in Amsterdam. Amsterdam is reluctant to see new offices, industrial premises, retail construction and even housing go beyond its borders or to co-operate with nearby municipalities (OECD, 2007b). This competition hinders strategic co-operation among municipalities in peri-urban areas. In the case of Poland, because of the increase in land prices, especially around large cities, the surrounding municipalities tend to speculate on land rather than develop a strategic long-term vision on its best use (OECD, 2008d).

The **property tax** system is the most important tool for most OECD member countries to recoup the increased land value.[12] In many OECD member countries, property tax provides local governments with more than 50% of their tax receipts. In Canada, around 95% of local tax revenues come from property taxes. It is even the sole local fiscal resource in Australia and the United Kingdom (OECD, 2010).[13] When land value increases after infrastructure development[14] or heightening marketing demand, property taxes also increase.[15] In many OECD member countries, property taxes are used as an effective instrument to link real estate and public infrastructure finance and also to control land conversion.[16]

Property-related tax can be levied when individuals acquire, own and sell property (Table C.3). Theoretically, ownership property tax is a price that property owners pay for government service, while property tax levied when selling land is focused on income from capital gain. The tax balance between owning and selling property also affects the real estate market and land use. For example, in Japan in the 1980s, low property ownership tax rates provided real property asset values with an advantage compared to other assets (*e.g.* stock or security), which did not encourage owners to develop the land they owned ("having land as an asset, without using it"). The increased property ownership tax was effective to control ownership of unused land and the ensuing hike of property prices. Introducing or intensifying land property ownership tax contributes to finance public services and decrease unused land.[17]

Value capture taxes are useful when property taxes are not assessed on a yearly basis. The principle of a value capture tax is to capture a portion of the increased value that accrues to property owners when a large infrastructure improvement is constructed in close proximity to their property. The tax base is an increase in property values arising from the increased desirability of the location, better access and the potential for higher rents, increased resale value or higher-density development. The funds captured by the tax can then be used to fund infrastructure. Value capture taxes are different from development fees or impact fees (see below) in that the taxes are levied on already existing properties instead of being levied on the buyers of a newly constructed house or developers. They may be levied as an ongoing annual charge or as a one-time tax.

Table C.3. **Property tax in selected countries**

	France	Germany	Japan	United Kingdom	United States	
Buying	Registration tax (national/local)	Real property purchase tax (state)	Registration tax (national) Real property purchase tax (local)	Stamp tax (national)	Real property purchase tax (state, local)	
Holding	Asset tax (national) Real property tax (local) Residence tax (local)	Real property tax (local)	Asset tax, urban planning tax (local)	Non-residential asset tax (national) Council tax (local)	Asset tax (state, local)	
Selling	Individual	Income tax (national)	Capital gain tax (national)	Income tax (national) Residential tax (local)	Short-term capital gain tax (national)	Income tax (national) Residential tax (state, local)
	Corporate	Corporate tax (national)	Corporate tax (national) Business tax (local)	Corporate tax (national) Business tax (local) Residential tax (local)	Corporate tax (national)	Corporate tax (national/state, local)

Source: OECD adaptation from the Japanese Ministry of Finance (n.d.), *www.mof.go.jp/jouhou/syuzei/siryou/061.htm* (in Japanese), accessed 15 October 2009.

Tax increment financing (TIF) is another fiscal tool that can be used to influence land development and finance improvements in distressed or underdeveloped areas where development might not otherwise occur. TIF uses future gains in taxes to finance current improvements. When public investment such as roads, schools and parks is carried out, the value of surrounding real estate often increases as does new private investment. Increased property values can generate increased tax revenues. TIF dedicates the additional tax revenue collected from properties in the district that benefited from the public investment to pay back the cost of public investment, usually over a period of 20 years. TIFs are not always viable as a financing method, because they may not generate enough additional revenue. In the United States, state-level legislation gives local governments the authority to designate and administer TIF districts. The City of Chicago used TIF districts to collect more than USD 3.6 billion in revenue from 1986-2007 (Cook County Clerk's Office, 2009). In Canada, the application is recent, as Calgary and Winnipeg started to use them in 2005 and Toronto has implemented pilot projects.

Other financial measures are taken or widely discussed among urban policy makers across OECD member countries (*e.g.* Altes, 2009). A **development tax** or **development impact fee** [18] is to acquire contributions from private developers for the public infrastructure and/or to encourage more efficient development patterns (usually compact urban forms). Government can discourage development through higher development taxes or impact fees in greenfields (areas without infrastructure), and encourage development through lower fees in urban areas already served by public facilities. Of note is the possible conflict of objectives between raising revenue for public infrastructure and limiting urban sprawl. If taxing or charging fees on greenfields at very high rate, the policy would have a greater impact on restricting land-use change. However, the decrease

of land-use change will lower the possibility of generating more revenue for government. The impact of policy on land-use change depends on the price elasticity of land supply in greenfields.

Development charges are levied by municipalities in the Toronto region on developers in order to fund services attributable to new development, based on the Ontario Development Charges Act of 1997. In order to calculate development charges, the municipality determines growth projections, looks at the existing infrastructure capacity, establishes the need and the cost for additional infrastructure and calculates development charges expenditure per capita. Though compensating the cost of sprawl to some degree, the *OECD Territorial Review of Toronto* (2009e) found that the charges were insufficient in that: *i)* they mainly apply municipal-wide development charges instead of area-specific charges; *ii)* they do not apply exemptions (or discounts) for high-density projects; and *iii)* several cost categories (*e.g.* hospitals, land acquisition for parks) are not recovered via the charges. Various OECD member countries, such as the Netherlands, make use of site-specific development charges paid for by either residents or developers.

The **land development charge** and **land value increment tax** was introduced in Korea to capture the capital gains of land price appreciation. The former was levied on land price increases after development in order to recapture the benefit of land development projects. Some 50% of post-development land price increase was charged against some of the development projects. The latter was levied on unrealised gain and was applied to unused land and to land held in excess of the ceiling. However, the land development charge was later modified as applied to the private sector. The land value increment tax was abolished in 1998 and integrated into the comprehensive land tax which is imposed on landowners at a progressive rate by computing all properties (OECD, 2001).

A **negative taking tax** aims to levy part of the increased land value which is actualised by up-zoning. A planning gain supplement to capture a modest portion of the land value uplift accruing to planning permission was seriously discussed in the United Kingdoom. A **land conversion fee** in urban areas of Denmark was also based on the same rationale to capture land conversion windfall.[19] This is a reflection of the policy that local governments have a legal obligation to compensate value losses due to planning decisions by measures such as down-zoning. This compensation is mandatory in countries such as the Netherlands and Switzerland. An **open space tax** is to internalise welfare losses resulting from construction on open spaces where the users of the open spaces are not compensated for their losses. The reason both negative taking tax and open space tax is not widely used is the difficulty and complexity of assessing land value and taxing it (Altes, 2009).

In the Netherlands, there is a commercial custom that the private sector acquires farmland and then strategically sells it to the government at a lower than normal market price. This is done in order to obtain **exclusive building rights** on part of the sold land after it has been serviced by government. Through this process, the private sector can avoid the high risks associated with land servicing[20] (Tan *et al.*, 2009). Municipalities can also sell the land to the private sector at the market price for "free" uses and at a controlled price for other uses, in particular social housing (OECD, 2007c). Municipalities can skim off windfall gains from land conversion through other measures such as land exploitation agreements, the municipal gain tax and so-called **red for green schemes** (Box C.10).

Box C.10. **Schemes to link land conversion profit to local finance in the Netherlands**

Landowners within a building location can negotiate a **land exploitation agreement** with the municipality. This agreement specifies which facilities are being developed by the municipality and the contribution that land owners will pay to the municipality in exchange for public services. When owners and the municipality fail to agree, the municipality can impose a **municipality gain tax** on owners by means of a contribution to the municipal services that are rendered. In practice, this gain tax is rarely applied because of its complexity and is mostly used as an instrument of last resort to avoid the emergence of free-riders. Land exploitation agreements and the municipal gain tax can only recover costs of public services that are realised within or very close to the development site. Currently, based on the **Land Exploitation Act**, the municipality can list all costs that can be recovered by the municipality and link the cost recovery to the building permit.

Red for green schemes are agreements in which land developers agree to contribute to the creation of green facilities, such as recreational or nature areas that are not in the immediate surroundings of the development site. Though these schemes make cost recovery at the regional level possible, there are several drawbacks. First, there is no legal basis, which makes the government vulnerable to judicial appeal. Second, as the level of compensation is determined by negotiation, considerable heterogeneity of compensation level exists. The first drawback is somewhat solved by the Land Exploitation Act, though it is necessary to prove the relation between the compensation and the area where cost recovery takes place.

Source: OECD (2008), *OECD Rural Policy Reviews: Netherlands*, OECD Publishing, Paris.

Land pooling or land re-adjustment (through transfer of part of developable lands to government for public use) have been widely used in OECD member countries to facilitate the provision of services and to promote an equitable distribution of infrastructures. In Germany, a special land exchange method for urban land development, the **re-adjustment system**, is widely used. The basic process of land re-adjustment is to add together all plots of a project area into a so-called "re-adjustment mass". Within this mass, the government can obtain the needed plots for land servicing to provide necessary public infrastructures, for example, roads, sewers, and green areas, from the land owners free of charge. The remainder of the mass will be redistributed among the original land owners, based on the share of their original contribution to it. Because the land servicing process can result in the increase of land values, no one loses from this process. All of the land exchanges are mathematically balanced based on the land assessment of the land assessment board (public land assessment services agencies) or private land assessment companies. In Luxembourg, part of land for development is **simply transferred to the communes** for public facilities. After approval of a Specific Development Plan by the Minister of Territorial Planning and the communal council, the land reserved for public facilities must be transferred to the commune (free of charge, if they do not exceed 25% of the total surface area) (OECD, 2007c). Land re-adjustments are also frequently used in East Asian cities throughout Japan, Korea and China where the techniques have been used as an effective planning tool for over 70 years. In Korea between 1962 and 1981, 95% of urban land was delivered through land re-adjustment. Likewise, in Japan from 1977 to 2000, 40% of the total annual supply of urban building plots was secured through land re-adjustment (Povey and Lloyd-Jones, 2000).

Two caveats should be addressed regarding land pooling or land re-adjustment. First, land re-adjustment should be carefully designed in co-ordination with local communities and highly skilled community mediators. If done in a compulsory manner, it may arouse resentment as a top-down compulsory acquisition exercise and fuel conflict between municipal authorities and residents. Second, though such a strategy has the potential to integrate informal areas into the city and contribute to infill and rational development, it should not be seen as a means to increase developed land supply per se. Land re-adjustment should complement a range of more appropriate planning tools designed to increase developed land supply.

An interesting scheme is land-value capture by internalising transport investment costs and land valuation benefits in the same entity. The same agency or company assures the land development rights and builds the infrastructure supporting those. The practice is common in Tokyo, Japan where a private company builds and maintains railways and develops neighbourhoods near the station. In Copenhagen, Denmark, infrastructure development, urban development and financing are planned in an integrated way. The timeframe is structured to assure sound financing for the development (Box C.11). In a similar line, TransLink, the organisation responsible for the regional transport network of Metro Vancouver in British Colombia, Canada expects a new source of funding in revenues from property development near rapid-transit stations, illustrating TransLink's new role as a real estate development body (Translink cited in OECD [2009f]). In Madrid, the regional transport authority and private developer (*Telefónica*) entered into the negotiations, as the extra marginal cost will have to be shared by them, and the private developer was involved in financing a metro station close to its large industrial settlement (OECD, 2007e).

Business improvement districts (BIDs), originally invented in Ontario, Canada, have been widely used in the United States as well as in Europe since the 1960s. This is a mechanism for financing and managing improvements to commercial and industrial environments through agreement by a majority of businesses (either land owners or tenants) who accept an additional levy. Once a district is established, it then has revenue at its disposal and can capitalise through long-term debt for capital investment. The BID resources often begin by supporting additional safety and sanitation services, but they can also develop into much more sophisticated investments and initiatives such as joint promotional initiatives. A district governing board, usually consisting of city government representatives and private business representatives, avails itself of a host of financing methods for district improvement. The boundaries of such districts are usually a contiguous commercial or industrial area within a central city location, though they can also be effectively used in suburban and ex-urban industrial locations. In cases of multiplicity of fragmented jurisdictions at the local level, coupled with multiple tax rates and fiscal systems, BIDs have become an attractive new addition to local fiscal and management instruments. It is important to note that BIDs are not workable without a critical mass of businesses that are willing to pay for particular services. Equally, BIDs are good tools for reasonably healthy commercial and industrial centres that are densely populated by owners/users within a tight boundary. They are less effective for more spread out situations or for areas with a high degree of mixed land use where the payer is less likely to capture the benefits of targeted improvements in services (OECD, 2004).

Box C.11. **Integrating infrastructure, urban development and financing**

The Ørestad area is located about two kilometres from the city centre of Copenhagen, Denmark. The area to be developed is about 600 metres wide and 5 kilometres long. The area has good access to Copenhagen's city centre, Copenhagen Airport and Malmö in Sweden by means of motorway, national railway and the newly developed metro. The national government and municipality government of Copenhagen established the Ørestad Development Corporation (ODC) that was owned 45% by the national government and 55% by the municipality of Copenhagen.

The basic development scheme is the integration of infrastructure development, real estate development and financing. The ODC took over the Ørestad land from the owners (national and municipal governments) and raised loans on domestic and international capital markets. The Danish government and the municipality of Copenhagen assumed joint liability, to improve its credit ranking. The money borrowed allowed the ODC to construct infrastructure including the metro extension line. After the newly developed infrastructure increased the value of the land, it sold the land to developers, capturing the increased value to repay the loans. Operational profits of the metro and increased real estate taxes also contribute to repaying the loan. The ODC estimates that the metro will be free of debt 30 years after its completion.

Ørestad is developing as planned, attracting both public and private sectors. Copenhagen University, the IT University and Denmark's Radio relocated to the area. Major companies such as Ferring Pharmaceuticals, Atkins, Dell and Masterfoods also established offices there. In March 2004, a 146 000 square metre shopping centre was opened, and by the end of 2006, approximately 1.6 million square metres had been sold, corresponding to 52% of the overall site. The average price per square metre has been increasing over the years and is expected to increase further. The new town of Ørestad will expand over the next 20 years to an area of 310 hectares, providing 60 000 jobs and 20 000 dwellings.

Based on this experience, the ongoing construction of a new city ring line has also been financed by a package of city development projects and a capital investment from Copenhagen and Frederiksberg of EUR 1 billion.

Source: OECD (2009), *OECD Territorial Reviews: Copenhagen, Denmark*, OECD Publishing, Paris.

Basic tools for land management

Legal protection of property rights

Central government must help set up institutional infrastructures so that market mechanisms can fully work for the efficient allocation of land resources. The most important infrastructures are clear property right protection systems and disclosure of land-related information. Historically, the management of land assets is deeply rooted in a country's political and social system. Communal property and illegal property ownership which have tended to exist in developing countries or former communist counties have hindered the effective work of land markets (Box C.12). In particular, informal (illegal and/or irregular) land ownership has varied negative consequences for developing the economy and the city in general. First, the insecurity and legal risks of informal land ownership reduces the net wealth of families, since an important proportion of their patrimony is at risk. Second, informal land ownership implies weak or non-existing linkages with the financial sector (considering the lack of appropriate collateral),

decreasing the potential leverage of the mortgage system. As the land market is usually closely linked to the financial market, a mature land market is necessary for the sound development of the financial market. Third, informal land ownership reduces the tax base of local governments, thereby lowering their capacity to finance public services. Finally, informal land development leads to a costly and inefficient pattern of infrastructure provision, with additional negative effects on environmental and social sustainability (OECD, 2008e).

To create an effective land market, rule of law and transparency are important prerequisites. Eminent domain laws require that any expropriation of land must be "in the public interest" in most countries. However, for example, in China, these laws do not give a precise definition of public interests; as a result, expropriations by local governments are sometimes regarded at their own discretion. Compensation levels are often considered to be too low, often below market value. Courts are key institutions in protecting property rights, mediating conflicts, and implementing laws. While the largest numbers of litigations in China occur at the village and county levels and a large proportion of litigation is related to issues such as land expropriations and unfair compensation for their expropriated land, local-level courts remain institutionally weak (OECD, 2009d).

Box C.12. **Communal property rights in Mexico**

In Mexico, urban expansion has occurred largely on land previously used for agriculture under the *ejido* system, a form of communal property created by the 1917 Mexican Constitution, which established that farmers have rights to land for agrarian purposes in perpetuity, not to be sold, rented or mortgaged. *Ejido* parcels have provided up to 60% of the land necessary for urban growth, which has entailed concerns for the quality of urban development. For example, local governments can refuse to provide basic public services because *ejido* land is designated as rural, or they can refuse to take responsibility because in theory the owner and therefore the adjudicator of the land is the local *ejido* association.

Reform has been made to correct irregular settlements. Since the creation of its federal agency CORETT in 1974, the government has regularised over 2.5 million lots. On average, around 5 000 hectares of *ejido* lands were expropriated per year in view of being regularised. Constitutional reforms were implemented in the early 1990s to facilitate the transformation of social or communal ownership in rural areas into private property, so as to aid private investment in rural areas in general, and in peripheral or suburban areas in particular. In 1992, titling and eventual sale of *ejido* land was allowed.

Several projects for the modernisation of public registries of ownership rights have been fostered in the last decade by the federal authorities and several states (including modern technology, training of personnel and procedures to increase transparency and eradicate corruption). The Ministry of Agrarian Reform (SRA) is intended to provide juridical certainty in matters of landholding by regularising rural property. One of the most important programmes of SRA is the Programme for the Regularisation of Community Property Rights and Entitling of Parcels (PROCEDE). Apart from the SRA, the Agrarian Registry and the Agrarian General Attorney are working to resolve conflicts derived from land possession. In addition, there are specific tribunals, which deal with land conflicts. Land regularisation gives households the certainty of their property, and therefore encourages them to invest in home and community improvement.

Source: OECD (2007), *OECD Rural Policy Reviews: Mexico*, OECD Publishing, Paris; OECD (2007), *OECD Territorial Reviews: Madrid, Spain*, OECD Publishing, Paris; OECD (2007), "OECD Territorial Policy Monitoring Review, Mexico", GOV/TDPC(2007)5, OECD, Paris.

Market information

A system which provides information to market participants is an important infrastructure which supports the land market. Various investors need access to diverse information such as land values, transaction histories, ownership, regulations and environmental information. Information concerning land transactions can increase the reliability of the real estate market, which will lead to an increase in the number of land buyers/sellers (domestic and foreign) and expedite land transactions. It contributes to the co-ordination function of market mechanisms, fair allocation of the benefits from the sale of land, and the corresponding expansion of the tax base, and helps policy decisions in terms of not only land policy but also economic and other related policies.[21] Basic infrastructure for the land market is an accurate land map which clarifies lot size and coverage. Land survey in urban areas is generally more complex as many owners and stakeholders are involved (Box C.13). Many OECD member countries collect and disclose land transaction data, among others, information about land prices (Table C.4). Accurate data is indispensable while the speed of information collection is an increasingly important factor.[22]

Table C.4. **Collection and disclosure of land transaction price information**

	Information collection	Information disclosure	Internet use
Australia (State of Queensland)	Submit contract to land registration office.	Ministry of Natural Resources discloses the information on the land information system website.	Yes AUD 8.6/case
France	Submit contract to land registration office.	Land registration office discloses the contract as part of the registry.	No
Germany	Submit a copy of contract to land assessment committee.	Land assessment committee discloses the part of information.	Yes in the City of Berlin EUR 7/case
Japan	Land assessment committee collects information of new land transactions from the Ministry of Justice (land registration office). Based on that, the committee sends a questionnaire to the buyer and dispatches an expert to the site for evaluation.	Ministry of Land, Infrastructure, Transport and Tourism discloses the arranged information on the land information system website, so that specific individual information will not be disclosed.	Yes Free of charge
United Kingdom (England, Wales)	Submit contract to land registration office.	Land registration office records price in land registry and discloses it.	Yes GBP 2/case
United States (state of Maryland)	Submit contract certificate to land registration office and tax office.	Tax office discloses tax information including transaction price.	Yes Free of charge

Source: OECD adaptation, based on Jutaku Shimpo (2006), *Monthly Jutaku Shimpo* (in Japanese), August, Tokyo.

Box C.13. **Continuing Cadastral Survey in Japan**

In Japan, just after World War II, the government began discussions about a cadastral survey and the Law on Land Survey was enacted in 1951. Because the survey was not a requirement for municipalities, it was implemented quite slowly The government therefore amended the act and enacted the new Special Law to Promote Land Survey. Since 1963, the land survey has been promoted by a ten-year plan. In spite of spending JPY 200 billion over more than 40 years, 52% of land was still not surveyed in March 2008. The most recent ten-year plan (2000-09) especially promoted the survey in densely populated urban areas, which was lagging behind rural areas. Under the plan, when municipalities implement the survey, the central government and prefecture government contributes to the cost (50%: 25%). When prefectures implement the survey, the central government shares half of the cost. The partial costs of prefecture and municipalities are later compensated by transfer of tax revenue, further decreasing their burden. The most basic surveys (focusing on geographic reference points) are directly implemented by the central government (Ministry of Land, Infrastructure, Transport and Tourism), while prefectures and municipalities develop land registration maps based on the reference points. When the land survey is implemented, a map based on the survey becomes the official map of the land registration office. The official map will be digitised and shared among the related ministries.

Source: Ministry of Land, Infrastructure, Transport and Tourism, *http://tochi.mlit.go.jp/tockok/know/know.html*.

Land-use modelling system

A wide variety of techniques have been used in OECD member countries to conduct land market assessments and monitor land supply. Furthermore, these countries have developed techniques to predict and manage the impacts of growth on local infrastructure and environmental systems. These techniques can collectively be considered among the most significant local land-use innovations in the last 30 years, facilitating the emergence and expansion of growth management policies (Pendall *et al.*, 2006).

i) Land inventory: all urban planning and monitoring systems must start with an initial inventory of land by type (*e.g.* vacant or developed; if vacant, developable or constrained; if constrained, relatively or absolutely; if developable, totally available, partially unavailable, or re-developable). The steps involved in conducting such an inventory include: identifying vacant land and land that cannot be developed due to environmental constraints; subtracting land needed for urban public services; adding land that can be re-developed or developed at a greater intensity thorough infill; identifying service land and estimating its development capacity (Kaiser *et al.*, 1995). Complex technical and conceptual difficulties arise at each step relating to the multi-staged process of land development.

ii) Urban land conversion: using either aerial photographic surveys or satellite image information, it is possible to identify the urban and rural consumption of land. Methodologies have been designed to ascertain: *i)* how the supply of urban serviced land is expanding to meet the growing population and employment needs; *ii)* which types of land use are growing the fastest; *iii)* where urban land conversion is taking place; and *iv)* where land prices are the highest and where land prices are increasing the fastest (Dowall, 1995).

iii) Land supply monitoring tools: land supply monitoring seeks to account for the dynamic aspects of urban growth by estimating the current and future supply of developable land.[23] To determine which lands are potentially developable, assessments of parcels according to physical constraints, governmental policies and the location of current infrastructure could be made. By combining this information with land-use data on vacant parcels, the potential supply of land can be estimated. By comparing the land supply estimates with future demands, assessments of future land market conditions can be made. This information can then be analysed to determine the spatial patterns of land supply and whether there is sufficient land in high demand areas of the metropolitan region (Berke *et al*., 2006).

iv) Future land-use analysis and scenario modelling: through systematic land assessment, planning can create and assess alternative land-use scenarios. These types of scenarios can be helpful for both master planning and for "envisioning exercises". Using geographic information systems (G.I.S.), modelling will help illuminate the possible effects of several land policies, which may include, but are not limited to: the density of residential and commercial/industrial use; financial incentives; on-site parking requirements; bonus density; redevelopment, infill, or brownfield strategies; site planning; zoning use classification change; and standards for public and community facilities or services.

Sophisticated land-use analysis can help policy makers identify broad spatial trends, which can underpin planning strategies. This usually entails the development and application of planning support systems. This can be defined both broadly, to encompass a range of technology-based solutions useful to planners, and more narrowly as G.I.S.-based models that project urban futures and/or estimate impacts. G.I.S. is able to map several databases into particular spatial locations. On a more sophisticated level, G.I.S. is used to create scenarios that model the spatial impact of public policies and allow for the visualisation of data which can reveal relationships, patterns, and trends.

Conclusions

This report introduced many diverse anti-sprawl policies which have been implemented and discussed in OECD member countries for the purpose of achieving better urban-rural linkages. Some lessons can be drawn from their experiences. First, policies should be implemented "*in packages*". Individual techniques should be consistently interlinked and co-ordinated. Second, government decisions at the implementation stage largely affect the impact of the policy. The detailed design of the policy (especially regulations) and its implementation matter. Third, multi-level and horizontal co-ordination is indispensable for effective policy implementation. Horizontal co-ordination includes co-ordination across sectors, for example, transport and land use, and co-ordination among neighbouring communities. Because urban sprawl often transcends municipal boundaries, regional level (or metropolitan area level) co-ordination can be effective. Fourth, the most successful cases have included citizens in the policy process. As land-use regulation affects and limits the use of the private property, legitimacy needs to be assured through stakeholder participation. We expect this report to be useful not only for member countries but also for non-member countries which are currently experiencing and struggling with rapid urban growth.

Notes

1. Land-use restrictions in the United States began as a means of confining "nuisance" uses to certain areas of a city in the late 1800s (Pendall *et al.*, 2006).

2. The term "smart growth" was first used in the late 1980s in Massachusetts. Rather than just managing and restricting growth, smart growth was meant to connote a pro-growth orientation (OECD, 2007a).

3. These include the City Planning Act of 1968, designating the Urbanisation Promotion Zone and the Urbanisation Control Zone; the Agricultural Promotion Zone Act of 1969 establishing the Agricultural Land Zone and Agricultural Promotion Zone where infrastructure building for agriculture is encouraged; the Forest Act of 1951; the Nature Park Act of 1958; and the Nature Environment Conservation Act of 1972.

4. However, the land use plan just added another legal procedure to the existing regulations and did not have much of an impact.

5. In Japan, unused farmland is more a political issue than farmland conversion. Designated farmlands are strictly restricted for land use change, irrespective of the owner-farmer's will. The ageing of the farmer population and the unpopularity of agriculture as a business increased abandoned farmland. Responding to this issue and the need to increase food self-sufficiency, the central government deregulated to allow the rental of farmland to individual farmers and corporations in 2009.

6. Green belt is more often designed to be a permanent barrier to urban expansion. However, the green belt is adjusted in accordance with development pressure.

7. Hong Kong's green belt policy is deeply affected by British planning tradition and dates back to a proposal by Sir Patrick Abercrombie, a proponent of the Greater London Plan. Green belt was first crafted as "recreation place", and then in 1965, it was formally adopted in the Colony Outline Plan as a "residential development space". From the 1980s onwards, green belt was given the character of a "conservation place". However, development control has been much more relaxed than for "conservation areas" and "country parks" where all types of development are completely frozen. Under enormous development pressures, the town planning board had an incentive to approve land-use conversion on the green belt, provided that the development proposal was technically acceptable. Unlike the direct management of the country parks by the Country and Marine Parks Authority, the town planning board does not have the resources to provide, manage and maintain the landscape features and facilities on the green belt. The green belt takes up 13% (13 900 hectares) of the land in the territory in a "compact and land-deficient city which is constantly under development pressure" (Tang *et al.*, 2007).

8. It generally costs municipalities considerably more to service residential developments (*e.g.* garbage collection, ambulance, fire) relative to the cost of servicing commercial developments. Residential developments are also generally subject to a considerably lower property tax rate compared to commercial

developments. Thus, from a fiscal perspective, residential development without employment growth is not fiscally sustainable in the long term (OECD, 2002a).

9. The United States Environmental Protection Agency provides this definition: "Brownfields are real property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant" (US EPA, 2009).

10. Zoning's impact on retail market competition is widely discussed in policy and academic circles (in case of the United States and Finland, see OECD [2008b, 2008c]).

11. The development of rural land may require less infrastructure spending than the redevelopment of urban land. Local governments which lack long-term financing options prefer rural conversion as a means of meeting real estate demands (Bertaud *et al.*, 2006).

12. The following concerns must be considered in the design of a property tax system in order to sufficiently recoup the increased land value: *i)* Who will evaluate the tax base? (central government or local government?), *i.e.* inconsistencies concerning who evaluates the property and who earns the tax revenue tend to lead to inefficiencies. In Mexico, though local governments collect property tax, the state Congresses determine both the tax rate and the tax base for each municipality. Because of this twist, the state governments have few incentives to maintain updated property value records to increase property tax collected (OECD, 2004, 2007d). *ii)* When is the tax base evaluated? A long delay in evaluation leads to discrepancies with the actual property value (OECD, 2007e). *iii)* What is the tax base? Market value? Construction cost? When the market value is not adopted, it fails to recoup sufficient gain in the property value (OECD, 2008e). *iv)* What is the relationship between the tax rate and the tax base? When local governments do not have the authority to change the tax rate, they have incentives to over-value their tax base in periods of financial difficulties (OECD, 2008e).

13. In the 12 OECD member countries where sub-national governments have considerable taxing powers and raise more than 20% of total government revenues (*e.g.* Denmark, Spain and Switzerland), local governments rely on an array of other tax bases. In nine of these countries, property tax represents less than 30% of local tax revenues. The exceptions are Australia, Canada and the United States (OECD, 2010).

14. Studies in several OECD member countries have concluded that the proximity of property to public transit services leads to an increase in property values (OECD, 2010).

15. However, textbooks of public finance often suggest that economic growth does not translate very well into property tax revenue growth, compared to business tax or income tax. This also means that property taxes are considered to be among the least harmful for growth. On the other hand, property taxes appear to be less appropriate for financing services that are closely linked to development in the population and economy. The strength of property tax is rather in its stability and predictability which are less affected by fluctuations in the economy. It also entails only minimal risks of tax flight or other attempts to evade taxation. Furthermore, property tax is highly visible and therefore fosters accountability. The drawback of property tax is that it is generally more unequally distributed than income taxes across regions. Metropolitan areas tend to have larger property taxes due to the higher land prices. In Chile, a

national law determines a minimum property value threshold. Under this limit, properties are exempted of the municipal property tax. An inter-municipal equalisation system called the Inter-Municipal Common Fund (FCM) distributes the money collected based on the permanent income per inhabitant (35%), land or properties exempted from territorial tax (30%), equal division (25%) and the proportion of the poor population (10%). Exempted property is included in the formula because the exemption significantly lowers municipal revenues, especially those of the poorest localities (OECD, 2009f).

16. In China, tax revenue is disconnected from the real estate sector, because the tax revenue of local governments comes from the business tax, the value-added tax, and income taxes for firms and individuals. Even though upfront land-lease payments are an important source of revenue, the future tax revenue that local government collects does not directly depend on current land-use decisions. However, in pursuit of higher tax revenue, governments may then allocate land to projects that generate business and income tax payments (*e.g.* industrial projects) (Bertaud *et al*., 2006).

17. The same situation is pointed out in the *OECD Territorial Review of Korea* (OECD, 2001), which observes "It [Korean property taxation] is based on the transaction rather than the possession of property, thereby acting as a barrier to a liquid property market and efficient land use".

18. Section 106 agreements in the United Kingdom are a kind of impact fee, providing mitigation against the impact of development. Although case law and policy formally restricts their use to mitigation, compensation or prescription of development, they can in practice form an indirect incentive for local authorities to grant planning permission. Negotiation for Section 106 agreements can, however, lead to delays in granting planning permission and heterogeneity of compensation levels depending on the results of the negotiations. The increased transaction costs for business and some local authorities in the United Kingdom have moved to standardise their Section 106 agreements. The UK government has proposed to scale back its use, coinciding with the introduction of the Planning Gain Supplement. Another similar case is a kind of inclusionary housing policy which is widely used in the United States. The obligation of devoting a certain percentage of development given to affordable or social housing can also be regarded as a kind of development impact fee, when social and affordable housing is assumed to be of a public character. In Luxembourg, it is proposed that at least 10% of all units in a development of greater than 1 hectare must be social housing. In France, the typical figure is 20 to 25%. It is frequently as high as 50% in the Netherlands (OECD, 2007c). Many municipalities throughout OECD member countries typically require between 10% and 20% of large (usually between 50- and 100-units) developments to provide affordable housing. Developers are given the option of paying into an affordable housing fund managed by the municipality if they do not wish to include moderately priced units. In return, developers are typically given density bonuses. Unlike the United Kingdom and some other OECD member countries, municipalities in Denmark do not have the power to impose inclusionary housing requirements for developers and sell land that would be used for social or moderate-cost rental housing at reduced prices. The main purpose is to avoid the government from distorting the private market (OECD, 2009c).

19. However, the fee provided positive incentives to develop greenfields and was abolished in 2004 to reverse this effect.

20. Risk in land servicing is huge in the Netherlands, because servicing costs cannot be estimated before digging deeply into the soil of the whole project area.

21. Because of the recent economic crisis linked with the housing bubbles, policy makers, especially macroeconomic policy makers, feel it important to develop economic indexes to quickly identify changes of real estate prices. An OECD-IMF real estate workshop was held to establish guidelines for a standardised housing price index in 2006. Although no conclusion was reached, the workshop brought about a consensus about the importance of the housing price index as a risk management index in the housing financial market, the decision making index in finance policy, the macroeconomic index, a kind of consumer price index and application to the System of National Accounts (Dievert, 2007).

22. Usually mortgage information from the bank is the quickest information obtained, but land registration information is more complete. The reason for this is that mortgage loans are not necessarily processed through the bank. Policy makers use either type of information depending on the purpose. In the United Kingdom, to make a speedy policy response by getting information quickly, financial institutions are required to offer real estate loan contract information to the Financial Service Authority (FSA). The FSA provides all data for the Bank of England and partial data to the Department of Community and Local Government (DCLG).

23. Developable land is defined as having reasonable access to roads and other critical infrastructure systems such as water and electricity, and is not constrained by physical impediments such as steep slopes and by governmental limitations on development. Depending on the type of infrastructure and the cost required to extend services, land located within one-half to one kilometre of existing infrastructure should be classified as developable, assuming there are no physical and governmental constraints.

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