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MEGA-TRENDS AND DEVELOPMENT TRAPS: HOW ARE REGIONAL POLICIES RESPONDING?

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EXECUTIVE SUMMARY

Regional policymakers across Europe face increasingly complex challenges of territorial inequality and cohesion. These include growing evidence of 'development traps' of some regions which face considerable structural challenges in their efforts to revive growth. Significant from a policy perspective is that these regions are heterogeneous in nature and not limited to those with weaker economies. The spatial impacts of global 'megatrends', including digitalisation and technological change, demographic transition and climate change, are contributory factors to the emergence of 'development traps'.

In response to this context, both academic and policy literatures are emphasising the importance of flexible 'place-based' and 'place-sensitive' regional policy responses. These include recommendations to: strengthen policy coordination and integration; work at appropriate functional scales; promote innovative financing of investments; adapt governance systems to meet new demands; focus on well-being and quality of life; and recognise the dynamic aspect of these processes.

An overview of regional policy responses across Europe over the past 12-18 months clearly reflects many of these challenges and policy directions. There has been a growing recognition that all types of

territory can fall into 'development traps' and that it is crucial to look at the territorial interplay of economic, institutional and social structures in promoting regional growth. The scope of regional policy objectives is expanding and strategies are increasingly emerging based on places, with a range of different geographies, scope and institutional arrangements.

In addition to new legislative arrangements, several European countries have introduced new strategies for regional development. Notable within these is a greater differentiation of specific territories, or categories of place, and a widening of thematic priorities, including a focus on 'people' and wellbeing. Policy changes relating to institutional factors, particularly the quality and capacity of government structures and systems, have become increasingly prominent. These are reflected in broad processes of decentralisation and increased sub-national policy competence, as well as administration capacity building and policy coordination. Finally, the emphasis on the need for place-based policy responses is reflected in the emergence of experimental approaches to regional development in some countries. A response to the spatial impact of global 'megatrends' is evident across all these areas of policy making.



1 INTRODUCTION

The economic and social impact of the COVID-19 pandemic is currently the primary focus of attention for policymakers throughout Europe. Regional policies are playing their part in the immediate policy response, though the spatial implications are still emerging, and their main focus currently remains on the wider and longer term challenges of territorial inequality and cohesion.¹ These challenges include a growing body of research evidence on the 'development traps' of some European regions, based on a stalling of convergence processes and an entrenchment of regional inequalities. Such traps involve threats to social cohesion and political stability from citizens feeling 'left behind'. Development traps are partly driven by so-called global 'megatrends', including digitalisation and technological change, demographic transition and climate change, whose spatial effects are uneven; they may help alleviate regional development problems but may also entrench them. A critical factor in the ability of regions to escape development trends and capitalise on new growth paths is institutional capacity, especially the quality of government at sub-national level.

The impact of the COVID-19 pandemic, therefore, comes in the context of important ongoing changes in regional policy, identified over the past 12-18 months. As noted in successive annual EoRPA reports², legislative changes, new strategic frameworks and other developments in the regional policies of European countries indicate a dynamic policy environment in responding to unequal development and territorial disparities. Key trends include:

- adapting policy objectives to the spatial impact and potentials of 'megatrends';
- a focus on 'place', with continued development and adoption of 'place-based' strategic objectives;
- a focus on 'people', recognising the importance of wider factors such as wellbeing and quality of life in regional development objectives; and
- strengthening the institutional endowment and redesigning regional policy governance to increase capacity and ensure that institutional frameworks can adequately and effectively support policy objectives and initiatives.

This paper discusses the challenge of 'development traps' and the implications of megatrends for the design and implementation of regional policies in Europe. Section 2 begins by discussing the growing research evidence for development traps and the contributory influence of megatrends (including digitalisation, demographic transition and climate change) before looking at research recommendations on the role of place-based policies in escaping traps. Section 3 then provides an overview of regional policy trends with a particular focus both on place-based approaches and policy responses to the territorial impacts of megatrends. An Annex provides more detailed summaries of the key policy developments in each of the EoRPA countries; detailed reports on the regional policies of each of the 30 countries covered in the EoRPA research are provided on the EoRPA website.³





2 'DEVELOPMENT TRAPS': AN EMERGING REGIONAL REALITY?

2.1 Entrenched inequalities in Europe

The issue of inequality has gained increasing importance for regional policy in recent years.

Academic and policy research reveals an entrenchment of disparities in the aftermath of the financial and economic crisis. Prior to the crisis, the EU was regarded as a 'convergence machine', witnessing a substantial shrinkage of regional disparities.⁴ The dispersion of GDP per head (PPS) for EU-28 countries, as measured by the coefficient of variation at NUTS 2 level, for example, dropped from 42.2 percent in 2000 to 35.2 percent in 2009. This gradual convergence process across Europe was attributed to upward movements among less developed regions with a simultaneous increase in disparities within a number of countries.⁵

However, the impact of the global financial crisis of 2008 has been significant, long-lasting and territorially differentiated.⁶ The pre-crisis convergence process has stalled and convergence has yet to resume despite a process of economic recovery. This has clear negative impacts on balanced economic growth and territorial cohesion – an impact with an increasing political expression as political movements in many European countries draw on discontent among inhabitants in the most disadvantaged areas, the people and places 'left behind'.⁷

There has been notable and important variation in the impact of the crisis across broad groups of European regions according to their level of development (see Figure 1).⁸

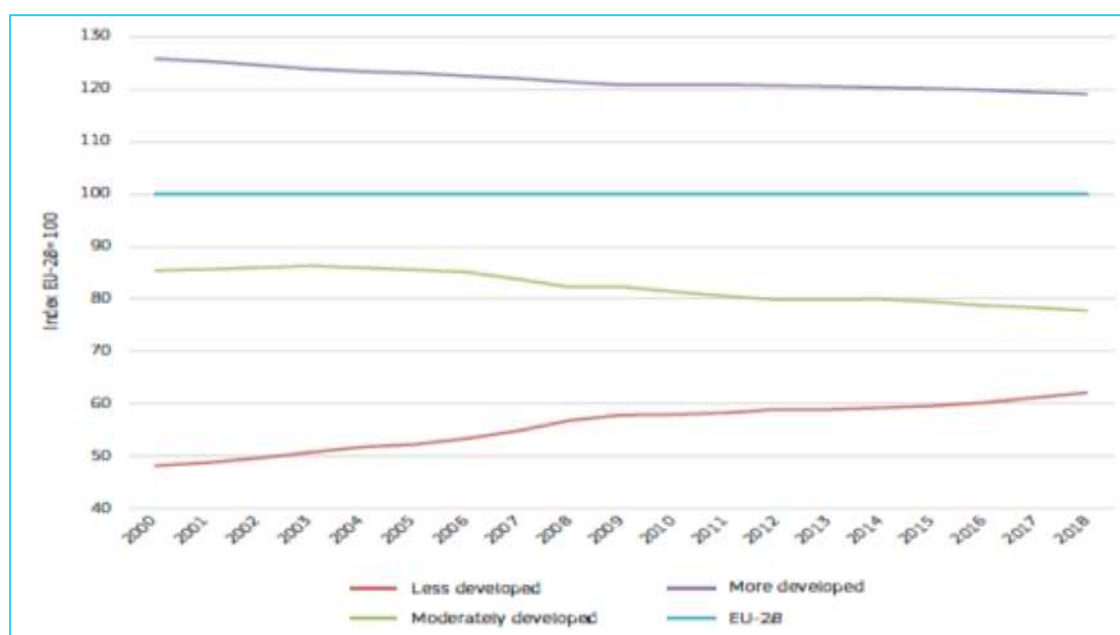
- In **regions with limited levels of economic development**, in terms of GDP growth, the crisis **weakened the pace of convergence** relative to the EU average. These regions had rapidly converged to the EU average prior to 2008 and, in general, continued to do so after the crisis but at a slower pace. In 2000, GDP per head in the group of less developed regions was around 48 percent of the EU average. By 2017, their GDP per head had increased to around 61 percent. Within some countries, notably those in Central and Eastern Europe, growing disparities are the result of the very high growth experienced by some regions (usually urban, capital city regions). Other parts of these countries have also been growing at rates higher than the EU average (and hence still converge), although there are regions, often in eastern and rural areas that are still 'lagging'.⁹
- **Moderately developed regions** began to **fall below the EU average** after the crisis. Their GDP per head was more or less stable at around 85 percent of the EU average up to 2007 but by 2017 corresponded to around 78 percent of the EU average. Several moderately developed regions, especially in Southern Europe but also in other EU-15 Member States, have faced a long-term struggle to adapt to globalisation processes (e.g. relocation and outsourcing of manufacturing and service activities). In the



context of European-wide convergence, it is revealing that in 2016 the majority of Spanish, French, UK and southern Italian regions had levels of GDP per capita lower than the EU-28 average. Such regions vary in terms of socio-economic profile: they can be sparsely populated, rural and characterised by net emigration, but also post-industrial. Collectively they have been described as 'left behind'.¹⁰

- **Regions with the strongest economies** show a **more stable trend** in the post crisis years. Relative to the EU28 average, the more prosperous parts of Europe are in Germany, most of the Benelux countries, Austria, Switzerland, northern Italy, Denmark and much of Norway and Sweden – all of which are above the average - together with a few regions in other parts of western Europe and the capitals of several central and eastern European countries. The most recent regional GDP data, from 2018, confirms this pattern, with a pronounced core-periphery map of economic disparities across Europe. It is important to note that in some cases the crisis contributed to development challenges in relatively well developed economies such as regions in Italy's Centre-North. In Norway, the crisis led to only moderate unemployment growth but this often affected the predominantly rural regions that face issues with access to labour markets and demographic change.

Figure 1: GDP per head (PPS), less, moderately, better developed NUTS 2 regions, 2000-2018



Source: EUROSTAT and REGIO calculations in Monfort, P. (2020) *op cit*.

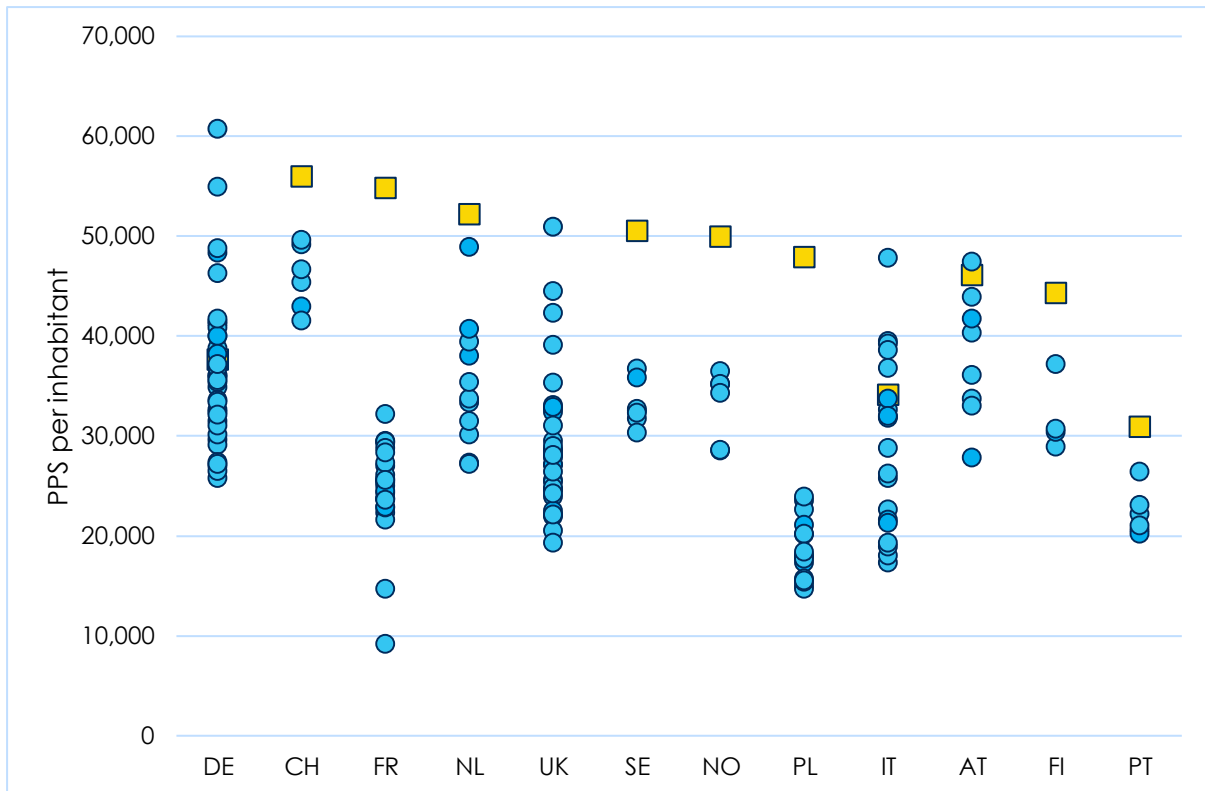
In virtually all European countries, there is a concentration of pockets of relatively high growth (including in almost every capital city region), the 'shrinkage' or decline of moderately developed or 'middle income' regions, and the entrenchment of 'inner peripheries'. 'Inner peripheries' are habitually located in post-industrial or rural areas and often characterised by high levels of unemployment, poor infrastructure, lack of skilled workforce and hampered





accessibility. Among the EoRPA countries there is almost universally a significant gap between the capital city region and other regions in terms of GDP (PPS per inhabitant) (see Figure 2).¹¹

Figure 2: Regional disparities in GDP (PPS per inhabitant, €), NUTS 2 regions, EoRPA countries (2018)



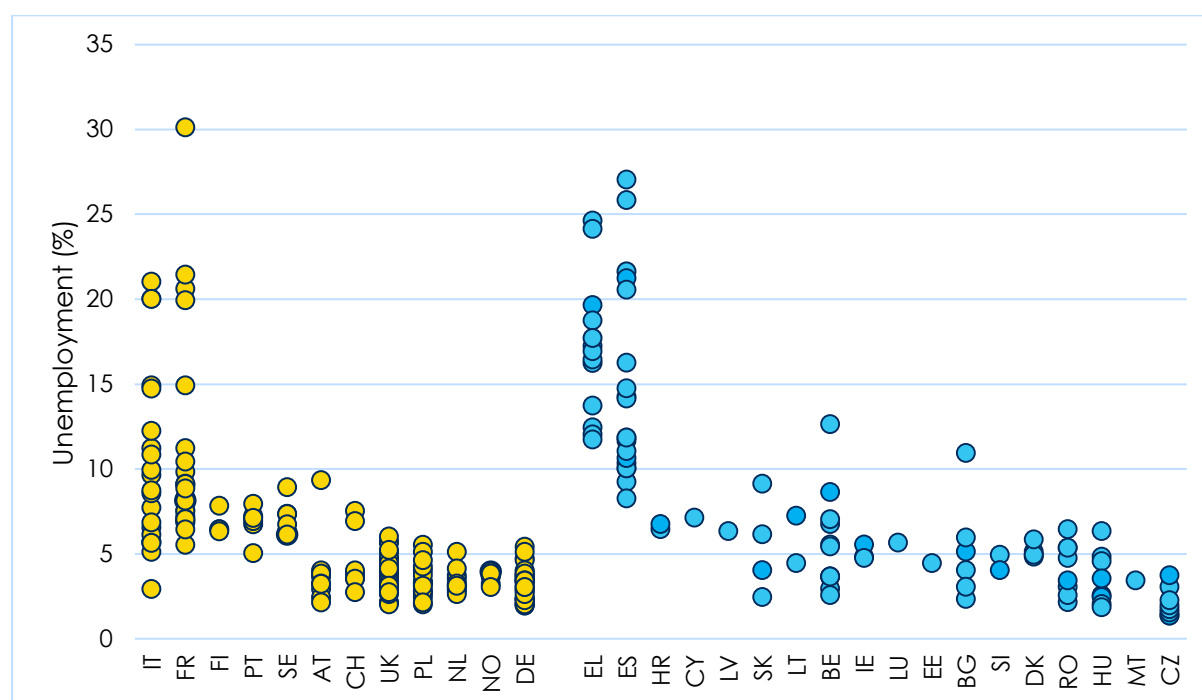
Source: Eurostat. **Note:** Capital regions represented by yellow squares. UK capital city region (UKI3) excluded as extreme outlier with GDP (PPS) of €190,500; Data for Norway from 2017. Data for CH from 2016.

The dispersion of **regional unemployment rates** (see Figure 3) has diminished in several countries but has increased over recent years for the EU as a whole. This suggests that while within-countries differences have diminished for large countries like Germany, often as a consequence of the reduction of unemployment, differences among regions across the EU have increased. This could be explained by the crisis in the competitiveness of moderately developed regions and in the reduction of public investment following the economic crisis.¹² There remain sharp differences between the labour markets of Central and Eastern Europe and many of the more developed European countries, and regions in Spain, Portugal, Greece and southern Italy. Differences in unemployment rates between urban and rural areas can be high, but with variations among European countries.¹³





Figure 3: Disparities in unemployment rates across NUTS 2 regions in Europe (2019)



Source: Eurostat. Note: Each dot represents a NUTS 2 region. EoRPA countries are shown in yellow.

There is growing evidence that post-crisis divergence processes are entrenched. Overall, there has been a deceleration in the rate of convergence of the least developed regions in Europe with the EU average while, at the same time, the performance of moderately developed regions has slipped. These trends are further illustrated by the striking differences in the mobility of regions between different GDP per head categories of development in the pre and post-crisis periods. Before the crisis, movements to a lower category were almost entirely restricted to the better developed regions. Only three of the least developed and moderately developed regions went down a category between 2002 and 2007. After the crisis, the frequency of such movements became much higher. Between 2012 and 2017, 15 of the weakest and moderately developed regions, mainly located in the EU-15, moved to a lower category. These analyses point to increasing polarisation as the share of regions in the 'moderately developed' category falls. Economic performance at the very top and the very bottom of the income scale has been far more dynamic than that achieved by many regions in-between these two extremes.¹⁴

In this context, the concept of the regional 'development trap' is being applied to identify regions in Europe facing significant, structural challenges in their efforts to revive growth. Recent research has used measures based on three dimensions of the economic dynamism of a territory (GDP per capita, productivity, and level of employment) to assess how a region performs relative to its past, to its own country and to the EU average, combining the findings into one summary indicator of average risk or severity/intensity of being trapped.





Some regions are assessed to have limited danger of becoming trapped. These tend to be regions (often around capital cities) with diversified industrial structures, including prominent research and development sectors, high levels of productivity, human capital, and institutional quality. However, of importance for regional policy makers is the fact that the groups of regions identified as being at significant risk of being trapped are heterogeneous in nature.¹⁵

- **Regions that, despite still being relatively well-off in terms of GDP per capita, are nevertheless threatened with stagnation.** These include many rural and old industrial regions, mostly in Western Europe, that have endured long periods of stagnation often associated with the demise of industries that were their main source of wealth in the past. (e.g. old industrial regions in Central and North Eastern France, Northern Italy, parts of Wallonia in Belgium, Northern Jutland in Denmark, Eastern Spain, and historically well-developed regions, such as Lower Austria, South Sweden, or Southern Finland). In peripheral areas (e.g. in Norway), the threat of stagnation or decline comes from demographic trends, skills mismatches and the challenge of dealing with long distances. Areas need sufficient resources in terms of access to labour markets or age dependency ratios to avoid stagnation.¹⁶
- **Regions that achieved middle-income levels of GDP per head against the EU average by the late 1990s, but have since become trapped,** struggling to improve their performance, often both in relative and in absolute terms. This group includes regions in Southern Italy, areas of Greece close to Athens and Thessaloniki, Valencia and Murcia in Spain, but also regions that have been declining for a considerable amount of time in Wallonia (Belgium) and Northern England (UK).
- **Regions with weaker economies that, despite often receiving substantial investment from EU Cohesion Policy, have struggled to trigger growth processes** and have remained at levels of GDP per capita below 75 percent of the EU average. This category includes regions such as Calabria in Italy, East Macedonia and Trace, West Greece, as well as regions in Central and Eastern Europe, such as Adriatic Croatia or Southern Transdanubia in Hungary.

2.2 'Development traps': contributory factors

The particular economic, social and demographic structure of a region will influence the likelihood of it becoming trapped in its development trajectory. Factors such as sectoral structure, dependency ratios, innovation and R&D capabilities and human capital endowment all play a role. The importance of these regional characteristics, and their distinctive interplay and influence, is reflected in the growing policy move towards more place-based approaches (see section 3.2). Institutional quality is also emerging increasingly as a critical factor in the danger of regions becoming, and remaining, trapped (see section 2.3).



At a broader level, major transformations are underway in economy and society, termed by the OECD as 'global megatrends'. These megatrends are not spatially blind and their territorial impact has contributed to the entrenchment of inequalities and the emergence of regional development 'traps'. Three such 'megatrends' – digitalisation and technological progress, demographic transition and climate change – all offer opportunities to reset regional trajectories but equally can also exacerbate inequalities.¹⁷

2.2.1 Digitalisation and technological progress

The potentials offered by digitalisation and technological changes are shaping the development trajectories of regions.¹⁸ Globalisation and technological innovation have increased regional economic disparities in Europe, as high-technology and knowledge-intensive sectors (ICT services, finance, professional services, and retail services) have become associated with the highest levels of productivity and have concentrated in metropolitan areas. Prosperity in the richest regions is linked to specialisation in these industries.¹⁹ Productivity increasingly depends on technology adoption and innovation diffusion. Digital transition facilitates the diffusion of innovation, supports industrial transition, and promotes participation in different value chains and production networks. Adoption of ICT and innovation at a company level has been cited as a driver of divergent productivity outcome, supporting exposure to foreign markets and embeddedness into global knowledge flows.²⁰

However, the ability of regions to take full advantage of the digitalisation and technological opportunities varies considerably, opening up the risk of a growing digital divide. Large cities are likely to benefit most from the growing importance of knowledge-intensive activities due to technological change. Conversely, many rural and remoter communities are actively seeking new opportunities, for instance in digital services to drive economic growth, but face difficulties due to inadequate infrastructure. Income inequalities can also underpin variations in access to and adoption of technology, which can subsequently result in wider socio-economic disparities.²¹

In terms of household broadband connectivity, an important prerequisite for regional populations to capitalise on digital opportunities, there were 48 regions in 2018 across the EU that reported less than four out of every five households (less than 80 percent) with broadband access at home. These were principally located in eastern and southern parts of the EU, although there were also relatively low rates in two southern regions of Belgium, rural regions in France, Latvia (a single region at this level of detail), and single, sparsely-populated regions in Lithuania and Sweden.²²

2.2.2 Demographic transition

Demographic shifts, including population ageing and migration are also entrenching territorial disparities. Development trapped regions tend to have higher population dependency ratios





and lower demographic dynamism.²³ The social and economic consequences associated with population ageing are likely to have profound implications regionally, for example, impacting the capacity of governments to raise tax revenue, balance their own finances, or provide adequate pensions and healthcare services. Demographic flows of younger, more educated people from rural to urban areas are a fundamental issue. Human capital endowments such as a greater share of workers with secondary and tertiary education can shield regions from falling into a development trap. Firms operating in regions with a high proportion of educated workers have access to a pool of diverse skills which can boost productivity via the generation of new ideas and the diffusion of knowledge.²⁴

The decline of many remote rural areas is perceived mostly in terms of depopulation, a pattern particularly apparent in upland/mountainous areas of central France, Greece, north-western Spain, Portugal and the United Kingdom but also in terms of popular retirement destinations. In this context, there is increasing recognition of how strengthened rural-urban linkages can help regions to enhance the production of public goods; achieve economies of scale in public service provision and help develop new economic opportunities.²⁵ There are opportunities to be fostered such as the development of the “silver” economy of older entrepreneurs, medical services for the elderly population, or the natural “green” advantage of shrinking areas.

2.2.3 Climate change

Climate change is already having an impact on regional inequalities and it has the propensity to become an increasingly prominent factor.²⁶ There is clear territorial variation in vulnerability to climate change, both in the impact of climate change in economic, social, and environmental terms and also in regional capacities to adapt to change. There are varied regional potentials for the mitigation of climate change in different types of European regions (e.g. in relation to renewable energy, water management, carbon sinks, energy saving, introduction of more sustainable transport modes etc.). Evidence indicates that this relationship is characterised by a vicious cycle, whereby initial inequality causes the disadvantaged groups to suffer disproportionately from the adverse effects of climate change, resulting in still greater inequality.²⁷ The costs and benefits of the transition to a low-carbon economy for different territories and communities is part of the policy challenge for regional policymakers. This includes identifying the impact of mitigation action on different regions or job categories, standards of living and welfare across regions, and the possible effects on migration within and/or from outside Europe in both the short and long terms.

2.3 The institutional dimension

The role of institutions and government quality is now established as a key factor in regional economic development. Institutional quality matters to, and influences, the entrenchment of regional inequalities and the emergence of development traps: “Overall, differences in institutional quality across territories can be considered today as important as—if not more



important than—variations in physical and human capital endowments and innovation capacity for the economic development of cities and regions".²⁸ This encompasses the role of formal institutions such as the rule of law, business regulations, property rights etc. and informal institutions (values, culture, trust, openness, networks, tolerance, diversity, creativity or social capital).²⁹

In particular, the quality of sub-national government is a significant factor that affects the chances of being trapped. Regions with a better government quality and more favourable institutional environments fare better than those with low government efficiency, limited transparency and accountability. Development traps can be compounded by institutional weakness and those regions in most need of transformation are often those with the greatest institutional deficit. However, the impact of even well designed regional development policies will be hampered or restricted where the institutional capacity to implement them is limited. Local institutional contexts and the quality of local government has an impact on the design, delivery and effectiveness of regional policies targeting territorial cohesion or development³⁰, and addressing the localised impact of global 'megatrends' such as climate change.³¹ The effective implementation and absorption of EU funds in many European countries is also known to be hampered by low administrative capacity.

2.4 Policy answers: the importance of place

Policy recommendations arising from assessments of regional development 'traps' and the territorial impact of 'megatrends' share two basic assumptions. First, these processes have implications for all places. Second, there is substantial variation in the potentials and threats posed by these processes across territories and over time. Hence, both academic and policy literatures emphasise the importance of flexible 'place-based' or 'place sensitive' regional policy responses. The underlying aim is to maximise distributed development capabilities of each territory, capturing and utilising local knowledge, and creating greater opportunities for the population. The place-based approach acknowledges that different types of places have a different logic³²: the nature and type of intervention required varies depending on the severity, length, direction of the development trap, consideration of the levels of wealth of the region, and its wider institutional setting. The policy recommendations made can be organised under five headings.

- **Strengthening policy coordination and integration.** A task identified for regional policy makers is to move beyond broad equity-efficiency or core-periphery perspectives to identify (or provide scope for) a fine-grained mix of investment priorities relevant for specific places. This requires vertical and horizontal coordination to design and deliver integrated development strategies.³³ These can involve, for example, complementing support to investment in regional R&D with measures to strengthen local capabilities and skills, and developing tertiary and vocational education to match enterprise demand.





- **Working at appropriate functional scales.** A key recommendation highlighted in this research is for regional policy to take spatial scale into account. Emphasis is placed on policies that cover functional areas rather than administrative boundaries.³⁴ The different spatial scales used in developing regional strengths may involve greater targeting of city regions (United Kingdom), as well as spatial economic networks between urban centres and urban-rural links (Sweden). In some cases, regional policy addresses multi or macro-regional scales (e.g. Strategy for the Socio-economic Development of Eastern Poland), or inter-municipal co-operation (as in the Netherlands) or overlapping “action areas” (such as the now discontinued pilot programme in Switzerland).. The EU has supported this exploration of functional spaces, promoting cross-border, inter-regional and transnational co-operation and integrated territorial investments.

- **Innovative financing of investments.** Cities and local governments can face particular financing challenges. These may be particularly problematic for cities and local governments that have limited capacity to use funding tools and to combine different streams of financing and funding. Funding limitations inhibit the ability to introduce new policies, adapt existing ones or finance the initiatives that will help address the demands and pressures of escaping from traps or dealing with megatrends. Thus innovative use of existing funds is often required, combined with tapping new, potentially external, sources of funding, and developing different forms of financing (e.g. pooled financing across different sources, or financial instruments). In these contexts, vertical and horizontal equalisation mechanisms across regions can also be important.³⁵

- **Adapting governance systems to meet new demands.** Multi-level governance systems need to be strengthened and made more flexible to respond to these challenges. This includes a number of potential actions.
 - **Exploring more differentiated multi-level governance**, with different responsibilities assigned to different configurations of national and sub-national jurisdictions. This can involve the merger of municipalities, frameworks for cooperation among local governments, the establishment of metropolitan or city-region governance structures, or the creation of steering groups or committees that bring together representatives of national and sub-national levels etc.

 - **Introducing more experimentation**, implementing a ‘learning-by-doing’ culture into policy design can help governments to develop better approaches, for instance allowing policy makers to learn from successes and failures through pilot experiences.³⁶

 - **Emphasising the role of digitalisation**, with increasing use of digital technologies to explore creative ways to engage citizens in policy initiatives and make policies more responsive to their needs (e.g. through facilitating feedback and discussion, easing administrative procedures, developing new data to inform measures etc.).



- **Focusing on well-being, quality of life and sustainability.** Several recommendations place increasing emphasis on the role of non-state actors in informing and implementing regional policy. Basic preconditions for such participation are improving the quality of life and well-being of these actors and the environmental, social and economic sustainability of the communities they live in, to ensure they have the motivation, capability and freedom to play this role.³⁷
- **Recognising the dynamic aspect of these processes.** Effective policy responses to these trends must take into account their dynamic nature. On the one hand, avoiding 'traps' depends on understanding the growth trajectories of different regions (and their determinants) and incorporate the dynamics of regionally embedded economic, institutional, and social structures into policy responses. On the other hand, understanding future trends is also highlighted (e.g. through instruments to 'future-proof' regional policy, such as data-driven forecasts and foresight exercises).³⁸

3 RE-THINKING REGIONAL POLICY IN EUROPE: DEVELOPMENTS IN 2019-20

The main theme of recent EoRPA annual reports has been a **significant rethinking on the role of regional policy in Europe**, partly in response to the trends outlined in Section 2. There has been growing recognition that all types of territory can fall into development traps and that it is crucial to look at the territorial interplay of economic, institutional, and social structures in promoting regional growth. In addition to subsidy-based interventions, operated nationally, past years have seen more comprehensive and integrated strategic approaches to regional and local development emerging, extending the scope of the objectives involved, and based on a fuller understanding of the needs and potentials of different territories. Of course, *regional* development strategies are nothing new, having been pursued in many parts of Europe since the 1990s: the innovation in recent years is the emergence of strategies based in *places* – with a range of different geographies, scope and institutional arrangements.

The 'place-based' approach highlighted above is reflected in several countries in the changes to legislative initiatives, new strategic frameworks, institutional reforms and the launch of new instruments over the 2019-20 period. For example, the Government Programme in **Finland** underlines the different needs and opportunities (e.g. in terms of population, economic structure, environment and culture) and the importance of place-based and partnership-based development approach. Similarly in **Sweden**, a recent analysis of regional growth policy reported an increased need for a place-based approach in the light of the complexity of the societal challenges and the need to understand the unique circumstances of different places, their capacities and their ability to cooperate.³⁹

The following sections provide an overview of recent changes to regional policy across European countries. (The examples given are brief and more detail can be found in the





country reports for each country. More detailed examples are given in a number of cases to illustrate, in particular, differing components of the place-based approach).

3.1 Legislative initiatives

Changes in the regional policy systems of some countries in 2019-2020 have been accompanied by revisions to legislative frameworks. Several of these are designed to provide a legal basis for institutional reforms that revise policy competences and governance tasks across administrative jurisdictions (see section 3.3).

- A proposed new Law on Regional Development in **Finland**, set to come into force in 2021, indicates the introduction of more collaborative, partnership-based approaches, notably by transforming annual implementation plans for the regional Strategic Programmes developed by Regional Councils into partnership agreements between national and regional stakeholders.
- In **Poland**, a bill amending the Act on the Principles of Conducting Development Policy has been prepared, to prepare the legal basis for a new distribution of EU funds in the next financial perspective; to include new regional policy instruments in the law that strengthen the position of local governments; and, to closely link socio-economic strategies to spatial planning.⁴⁰
- The strategic planning capacities of sub-national levels is also the focus of ongoing legal changes in **the Netherlands**. Recent recognition of the planning capacities of sub-national governments has led to experimentation with new forms of regional governance. In 2022, the new Environment and Planning Act will seek to revise environmental law with the aim of involving all levels of government in reviewing their spatial plans.
- In **Italy**, recent legislative changes seek to strengthen synergies between EU and domestic strands of regional policy and between regional and sectoral policies. The so-called 'Growth Decree' introduced in June 2019 requires each administration responsible for domestic regional policy projects to draft a single 'Cohesion and Development Plan' that draws together all such investments into one single, multiannual document, similar to Cohesion Policy Programmes under Cohesion Policy. This move is intended to strengthen the strategic nature of the projects funded by the FSC and their synergy with Cohesion Policy, to reduce fragmentation, to provide more certainty in the financial disbursements from the central state, and to strengthen accountability.
- In **Germany**, the federal parliament approved new laws in 2020, providing for significant federal funding (c. €40 billion in 2019-38) for economic development in coal transition regions, in support of domestic climate change goals. The 'Structure



Strengthening Law for the Coal Regions' (*Strukturstärkungsgesetz Kohleregionen*) targets lignite regions, while the Coal Transition Law for the Anthracite Sector (*Kohleausstiegsgesetz für den Bereich Steinkohle*) provides for more limited funding for anthracite regions.

- In **Romania**, a new Law adopted in June 2020 established the institutional architecture for the 2021-27 implementation of European funds, entrusting the Regional Development Agencies with new Managing Authority status and creating eight Regional Operational Programmes.

3.2 New strategic frameworks

Several countries have recently introduced new strategies to set out key priorities, highlight specific territorial issues and provide a framework to coordinate actions across policy and administrative jurisdictions. These strategic frameworks point to a shift in focus in a number of areas, with the recognition of the importance of place emerging as a strong theme.

In terms of the **spatial coverage of strategies**, some new frameworks **target specific territories** that are experiencing significant development challenges.

- In **Italy**, a new 'Plan for the South 2030: development and cohesion for Italy' initiative was presented in February 2020. This is a long-term programme of public investment with five priority areas: youth, connectivity and inclusion, green transition, innovation, and openness to the Mediterranean area. The basis of the Plan is a new territorial policy capable of responding to the national dimension of territorial cohesion. It aims to reduce the disparities between Northern and Southern regions, including through the regeneration of urban contexts, the promotion of cultural heritage and the mobilising of citizens for social innovation. The government has also appointed a 'Minister for the South'. The Plan also focuses its attention on the territorial dimension, especially on marginal areas, in relation to the National Strategy for Internal Areas and includes a strong emphasis on administrative capacity building (see Box 3).

Elsewhere, a prominent recent trend is the nationwide **identification of types of territory or functional and administrative categories of 'place'**, even in countries that have traditionally taken broader territorial approaches. This, at least in part, recognises that different types of territory across countries can experience development challenges and traps.

- In **Norway**, the 2019 White Paper 'Vibrant Communities for the Future – the district report'⁴¹ adopted in autumn 2019, continues a move towards the differentiation of district and regional (i.e. all-region) policy and increases the focus on weaknesses that predominate in the districts, particularly in the context of demographic challenges.





- The new Regional Development Strategy 2021+ in the **Czech Republic** includes a strong territorial focus and its strategic objectives are based on specific types of territory including: internationally competitive metropolitan areas; agglomerations using their development potential; economically stabilised regional centres; revitalised and economically restructured regions; and good quality of life in economically and socially threatened territories.
- In **Hungary**, the National Development and Territorial Development Strategy allows for the creation of 'specific areas'. The most recent of these is the Mid-Danube area which was created in May 2020 and includes 98 settlements in two regions, separated by the Danube. A Development Council will be established to oversee the implementation of a targeted package of transport and social infrastructure upgrading.
- In **Germany**, an important policy development has taken place with the launch, in January 2020, of a new nationwide regional policy system for structurally weak areas. This follows the end of the Solidarity Pact for the eastern Länder, which ran from 1995-2019. There are now no instruments which provide targeted funding solely for eastern Länder and the shift in focus towards structurally weak regions nationwide is significant. The new system is made up of over 20 federal government programmes focused on: business investment; research and innovation; skilled labour supply; broadband and digitalisation; infrastructure and local public services. All programmes now include a specific focus on the GRW areas throughout Germany, under which all eastern regions are currently eligible.
- In **Poland**, a new National Strategy for Regional Development 2030 includes increased focus on 'sensitive areas' such as peripheral, rural or declining areas (see Box 1)





Box 1: The new National Strategy for Regional Development in Poland

In Poland, a new National Strategy for regional Development (KSRR) sets out a revised model for Polish regional policy by delineating different territorial categories for strategic intervention, including 'sensitive areas' where regional policy support should be concentrated and 'growth centres' where specialisation should be pursued. The KSRR contains a number of key initiatives, including:

A new **supra-regional programme for the economically weakest areas 2020+**. This covers territories recognised in the KSRR as areas of strategic intervention, including territories at risk of permanent marginalisation and medium-sized cities losing socio-economic functions, with low GDP per capita, low level of education, depopulation; ageing population; low number of enterprises (and thus low tax receipts for local government); poor public services; and limited capacity of local administrations to address these challenges. These municipalities are mostly rural with small towns of up to 15,000-20,000 inhabitants. As part of the programme, a comprehensive package of activities will be implemented in the field of entrepreneurship, social activation and improvement of access to basic public services. This programme will be implemented with support from the national and regional Operational Programmes.

The **Local Development Programme**. This is funded through the EEA Grants and Norway Grants instrument (total programme budget is €117.6 million, with €100 million grant and €17.6 million national co-financing). The long-term objective is to strengthen social and economic cohesion in small and medium sized towns in Poland, including through strengthening institutional capacity of local-government authorities. Small and medium cities classified as having difficult socio-economic situations were invited to submit project proposals which could cover social, economic and environmental dimensions but had to contain integrated actions and an institutional objective to increase the capacity of local administration. Currently, 54 of proposals have been selected for detailed preparation and submission. A pre-defined project in the Programme allocated funding to support municipalities in the development of their proposals, through the Association of Polish Cities.

The **thematic priorities** of emerging strategic frameworks, include responses to the spatial impact of megatrends (see section 4). In addition, **there is a growing focus on the needs of specific population groups, wellbeing and sustainability**. Debates on whether policies should be place-based or people-based have evolved to see both elements as complementary and key to contemporary regional policy: targeting people is more effective if it is done at the appropriate scale and takes into account geographic specificities.⁴² The social aspect of regional resilience, the capacity of local populations and communities to respond to crisis, has become stronger, driven in part by the political discontent and threats to social cohesion brought about by regional development traps. Comparable measures of quality of life and wellbeing are increasingly used to look beyond the functioning of economies, to also consider a diverse range of living conditions (physical health, welfare, risk of poverty, access to housing, education, etc.).⁴³ Emphasis on social aspects of well-being strengthens the focus on sustainability: a clean environment and sustainable economic and social conditions is essential for wellbeing. Regional policies are incorporating strategic objectives that go beyond economic growth taking into account material and environmental conditions and quality of life. Principles of spatial 'fairness' and 'justice' are also underlined, raising questions of equal





spatial distribution of societal potentials and needs (job opportunities, access to health care, good air quality etc.) and accountability and representation of territory in decision-making procedures.

- In **Finland**, a new Regional Development Decision, adopted in March 2020 prioritises climate change, sustainable community development, economic renewal and acceleration of research development and innovation RDI; knowledge and education; and well-being. Increased social inclusion and wellbeing and preventing social inequalities are emphasised and sustainable development and digitalisation cut across all priorities.
- In **Germany**, a new multi-annual Coordination Framework regulating the main nationwide regional policy instrument, the Joint Task for the Improvement of the Regional Economic Structure, came into force in January 2020. It has a stronger focus on research and innovation, including funding for capital expenditure and cooperation projects in business-oriented R&D institutes. A strong emphasis is placed on renewing the goal of 'equivalent living conditions' which is at the heart of a range of policy interventions across different policy fields.
- In **the Netherlands**, the new National Environmental Planning Strategy, is regarded as important for (re)organising the complex relations between national and sub-national governments, especially as legislation planned for 2022 will require all levels of government to reconsider their spatial plans from an environmental perspective.
- In **Sweden**, regional growth policy is undergoing transition in terms of policy thinking, practice and institutional arrangements. A new National Strategy for Sustainable Regional Development for 2021-23' is planned for 2021. The future strategy will identify key societal challenges identified in the previous strategy (climate, environment and energy, social inclusion, demographic developments and globalisation), with the possible addition of digitalisation. However, there is increased emphasis on the sustainable dimension of regional growth policy: Swedish Parliament added the sustainable dimension to the overall regional growth policy objective in December 2019, based on recommendations of the 'Agenda 2030 and Sweden' report. The sustainable development dimension covers the three aspects of sustainability: social, economic and environmental.
- **The UK Government and the Devolved Administrations** have also emphasised their commitment to address economic and social inequalities and improving the wellbeing of people living in poorer areas (see Box 2).



Box 2: 'Levelling up' and improving wellbeing in the United Kingdom

The **UK Government's** March 2020 budget included a commitment to 'levelling up across the UK by raising productivity and growth in all nations and regions, creating opportunity for everyone, and addressing disparities in economic and social outcomes.' A number of initiatives are planned in support of this. A new National Infrastructure Strategy is anticipated later in 2020, with Government spending on infrastructure a central mechanism for raising productivity and growth to achieve the 'levelling up', including spending on roads, railways, broadband, flood defences, housing, schools, hospitals and power networks. Several key regional policy-related elements were also included in the Spring 2020 budget including: a focus on towns and ports with support for the regeneration of high streets and town centres and consultation on ten new Freeports; a commitment to move 22,000 civil service roles out of central London over the next decade; action on regional connectivity and additional funding for City and Growth Deals in the devolved nations. A review of public spending is planned (Comprehensive Spending Review, CSR) to boost UK regions and increase the role of wider criteria such as the wellbeing of people in poorer areas or narrowing the regional productivity gap in the allocation of funding. The UK Government plans to create a new Shared Prosperity Fund to 'to reduce inequalities between communities', replace EU funding and respond to the differentiated economic impact of exiting the EU across UK regions and devolved nations. Detail on the proposed content, budget and delivery of the Shared Prosperity Fund was expected in Autumn 2020 as part of the Government's Comprehensive Spending Review, but this faces delay in the context of the COVID-19 crisis.

The **UK devolved administrations** put particular emphasis on wellbeing in their development strategies. Scotland was the first jurisdiction in the UK to begin experimenting with wellbeing frameworks. 'Place and regional cohesion' is included under the priority of inclusive growth in Scotland's Economic Strategy, supporting 'a more cohesive economy that improves the opportunities, life chances and wellbeing of every citizen [.....]'. Scotland's National Performance Framework for public services also prioritises wellbeing. There is also a policy focus on rural areas such as the islands with the passing of the Islands (Scottish) Act, and the South of Scotland, where an additional regional enterprise agency has been created. The Welsh Government has developed a conception of economic development that goes beyond the conventional goal of GDP, prioritising wellbeing. The Wellbeing of Future Generations Act, requires public bodies and government to consider all aspects of well-being in decision-making (cultural, social, environmental and economic).

3.3 Institutional reorganisation, new governance models

As outlined in section 2.4, institutional factors, particularly the quality and capacity of government structures and governance systems, are emphasised in the 'place-based' model.

The capacity of formal government structures and the quality of processes of coordination and collaboration between local and regional institutions help territories to adjust and react to change, to seek joint solutions to problems and to escape 'traps'. The growing recognition of the importance of these factors is clearly reflected in recent trends and developments in the both the design and implementation of regional policies across Europe. Indeed, in some countries, strengthening the quality and capacity of sub-national institutions has been made





an explicit priority in new regional policy strategies (e.g. Poland, Italy, Norway and Lithuania). In these cases, the explicit incorporation of institutional considerations into regional policy strategies aims to overcome regulatory or governance-related barriers to implementation and to provide an institutional framework that actively supports the strategic aims and objectives. This emphasis being placed on these factors takes different forms, depending on existing institutional contexts, including processes of decentralisation; the strengthening of horizontal and vertical policy coordination; and capacity building.

3.3.1 Decentralisation

In some countries, broad processes of decentralisation are reallocating regional policy competences, highlighting the role of sub-national levels in policy design and delivery. In this context, the OECD has pointed to several decentralisation trends including: increased sub-national spending and revenues (although financing systems vary widely); an upscaling of sub-national government (including urban governance and strengthening of regions or municipal cooperation); and increased asymmetric decentralisation (governments at the same sub-national level displaying different political, administrative and fiscal powers).⁴⁴ The role of national government evolves in this context towards a greater emphasis on facilitating and enabling the role of the sub-national level in regional development.⁴⁵

- In **Norway**, regional institutional reforms came into force at the start of 2020 which, among other things, reduced the number of counties while enhancing their role in economic development policy and merged some smaller and/or less populous municipalities. This is in the context of an increasing strategic focus of regional policy on the districts, or rural areas, rather than on the country as a whole.
- In **England**, new sub-regional strategic frameworks are emerging, where local industrial strategies have been agreed, to facilitate more coordinated implementation of national and local funding streams and private investment. This follows from a major programme of devolution of policy responsibilities to big cities in particular. Further devolution of decision-making powers on transport, planning and skills within England is an ongoing theme, with publication of an English Devolution White Paper expected later in 2020.
- In **Portugal**, the transfer of a range of competences from the centre to local authorities and inter-municipal entities has been underway since 2019. Further steps are being taken towards strengthening territorial governance through the introduction of the indirect election of presidents of the Regional Coordination and Development Commissions by municipal representatives.
- **Latvia**: April 2020 the Cabinet of Ministers examined a second hearing of a legislative proposal on administrative territorial reform which was subsequently approved and signed into law in June. The legislation calls for 42 economically capable administrative



territories (seven big cities and 35 municipal counties or *novadi*) run by local municipalities to be established by 2021. Under the legislation, these municipalities should be able to exercise autonomous functions of comparable quality and availability and supply citizens with quality services at a reasonable cost.

- In **France**, a new law is under preparation which is expected to further decentralise policy competences and strengthen the role of sub-national authorities (see Box 4).

3.3.2 *Administrative capacity building*

The prominence given to regional and local authorities under the ‘place-based’ model and the reallocation of policy responsibilities as part of decentralisation processes raises issues of institutional quality and administrative capacity. In short, sub-national institutions must have the requisite quality and capacity to fulfil the role accorded to them in this model. This concerns the capacity of regions to generate and utilise knowledge, be effective partners in multi-level and multi-sectoral policy initiatives.⁴⁶

Capacity deficits can exist in a range of areas including: lack of skills, knowledge, experience or competences; lack of resource access for the collection, analysis and use of necessary data and information required for effective strategy design and implementation; lack of vertical or horizontal coordination; and lack of personnel or financial resources. Response to these issues can take the form of investments in human resources, organisations structures, systems and tools⁴⁷ (see Box 3).





Box 3: Building administrative capacity at sub-national levels

Efforts to strengthen the administrative capacities of sub-national actors is taking a variety of forms in different institutional contexts:

The creation of networks or platforms for knowledge exchange. This approach provides opportunities to exchange experiences and a forum for discussing problems, solutions, good practice, for strengthening coordination and coherence. A key element of added value of is in coordinating activities, the development of a standard approach and in the achievement of synergies. For example, In **Austria**, a project launched by the Department for Coordination, Regional Policy and Spatial Planning in March 2019 aims to identify ways in which regions, understood as the territorial level between municipality and Land, can be empowered to contribute to a sustainable spatial development. Intermediate findings suggest the potential for the establishment of an Austrian platform for regions and a roadmap towards strengthening this regional level.

Investment in human resources. In some cases, capacity building concerns the strengthening of human resource management systems to address shortages of qualified and experienced staff to implement regional policy. Institutional and administrative strengthening has been a key goal in **Italy**, in line with awareness of a North-South gap in institutional quality and its effect on policy implementation and development. The new Plan for the South 2030 places strong emphasis on building capacity to ensure effective implementation in different territories. This includes the capacity of the Agency for Territorial Cohesion to support the specific territorial implementation of key projects. In early 2020, this focus on administrative capacity was strengthened with 10,000 new civil servants being identified for southern municipalities and authorities.

Strengthening of broader human resource management systems. In **Croatia**, the Action Plan to implement reform of public administration, has set developing a quality management system in the public administration as a key goal for 2020.

Provision of training and expert advice. As noted above, the new National Strategy for Regional Development in **Poland** places more emphasis on the role of local authorities in development policy. This is accompanied by initiatives to boost the capacity of municipalities to play a more strategic role, including through the placement of experts in municipalities to advise on the development of strategies and action plans. In France, the new National Agency for Territorial Cohesion increasingly focuses on targeted support and capacity building for sub-national territorial entities, including through steering committees (see Box 4).

3.3.3 Policy coordination

The 'place-based' regional policy model emphasises regional policy coordination. Regional development policy is often regarded as a 'policy of policies'⁴⁸, mobilising a range of policy fields in support of the development of regions and places. The challenge of addressing a broadening set of cross-sectoral issues and instruments across a range of territories and administrative levels has brought coordination to the fore. Multi-level coordination is necessary to avoid policy overlap and achieve clarity within the context of shared responsibilities. Effective coordination will also play a role in identifying gaps in sub-national institutional capacity which need to be addressed in order to support the success of nationally-initiated



policy initiatives. The importance of diverse stakeholder involvement and effective horizontal governance of all involved actors is also central to effective place-based strategies.⁴⁹ Policy coordination initiatives can be identified in several countries over the 2019-20 period, involving a variety of organisational reforms at national and sub-national levels and the use of negotiated or contractual mechanisms.

In some cases, ministerial reorganisation has integrated regional policy alongside traditionally separate sectors to create internal coordination.

- In **Austria**, the higher profile of rural areas in policy making has continued and is evidenced in the reorganisation of institutional responsibilities for regional policy and rural development over the last two years. The bodies responsible for regional policy and rural policy are now located in the same Ministry (originally the Ministry for Sustainability and Tourism and, from January 2020, the Federal Ministry of Agriculture, Regions and Tourism) and certain tasks carried out by departments in the same Directorate-General (Tourism and Regional Policy).
- In **Portugal**, a new Ministry for Territorial Cohesion was created in October 2019 with responsibilities for territorial cohesion, European territorial cooperation, regional development and the enhancement of the interior.
- In **Norway** the appointment of a new minister for 'districts and digitalisation' in the Ministry of Local Government and Modernisation brings together digitalisation and regional policy agendas.
- In **France**, processes of decentralisation are reshaping the role of the central State, reflected in organisational change at the national level (see Box 4).

Box 4 - Decentralisation and vertical coordination in France

In France, a broad process of government reform includes ongoing discussions relating to the overall distribution of policy tasks and funding between national and sub-national authorities. A new law which is expected to further decentralise policy competences and strengthen the role of sub-national authorities is currently in preparation. Under review are the allocation of competences between state and sub-national level, differentiation (allowing flexibility in the way sub-national authorities can be organised and implement public policy); and deconcentration (enhancing decision making and policy competences of local state services). In addition, options are currently under consideration for experimental cooperation initiatives between sub-national authorities.

In this context, the creation of a National Agency for Territorial Cohesion (*Agence Nationale de la Cohésion des Territoires*, ANCT, former CGET) in 2020 reflects a gradual shift in the understanding of the central state's role in delivering regional policy. The main objectives of the ANCT are to enhance capacities of sub-national authorities through coordination of relevant actors and the provision of targeted project support, leaving project selection and management to sub-national authorities. This ambition is reflected in ANCT's governance and operational model as steering committees at local and national level aim to bring together stakeholders and actors, including financing bodies, with a view to coordinating and adapting project support to local needs.⁵⁰





There is a prominent trend towards negotiated arrangements for coordinating instruments and resources from various policy sectors and administrative levels. Contracts or deals are seen by policymakers as a means to bring together regional policy instruments in a context of broader decentralisation or delegation of competences.

- In **Finland**, discussion on regional development has increasingly focused on developing practices that support partnerships, collaboration and networking. There is a growing use of contracts or agreements to design and deliver regional policy. These include ecosystem agreements and Bridge Agreements for harnessing positive structural change. Implementation plans of the Regional Strategic Agreements are also moving more towards a partnership agreement approach.
- Deals and partnerships are a key feature of regional policy in the **United Kingdom** (e.g. City Deals, Devolution Deals) and in **Scotland**, regional economic partnerships are being established to manage a more decentralised and coordinated approach to economic development tailored to the needs of each region.
- In **Italy**, the Pacts for Development are an inter-institutional territorial cooperation tool for the implementation of interventions in the regions and metropolitan cities of the South, which have been extended also to cover the Centre-North regions.
- In **Belgium**, under the new Flemish government, which came to power in October 2019, there is interest in enhanced regional cooperation following the Dutch model of the Region Deal. Four small cities in the Maritime Flanders region ('Westhoek') in West Flanders are proposing a joint vision focusing on an attractive, smart region to respond to recent societal challenges and benefit the wider West Flanders province.⁵¹ The growing provincial autonomy is emphasised by the increasing coordination with sub-regional organisations on topics such as healthcare and mobility, the greater involvement of provincial governors, and the decentralisation of healthcare tasks as of 2022.

3.4 Experimental approaches

One emerging trend which can be identified in the review of regional policy developments over the 2019-20 period is the emergence of experimental approaches within regional development policy in some countries. This is also part of the place-based narrative and a recognition that different regions may require different approaches to escape development traps or find new trajectories (see section 2.4). Examples of emerging experimental approaches include the use of pilot projects (see Box 5):



Box 5: Experimental approaches in Switzerland

In **Switzerland**, a recent study on megatrends and spatial development in Switzerland⁵² identified 18 recommendations. Two of these support the introduction and use of more experimental approaches to spatial development.

- 'Real Laboratories' or 'experimental place' in cities or in rural areas which offer the opportunity to test and develop emerging innovations and research knowledge in close cooperation with political, administrative, economic and social partners in a direct and unbureaucratic way. It is recommended that the federal government support districts, whole cities and selected rural regions as experimental places to support holistic and substantial changes in terms of environmental and climate appropriate development. The aim is to identify necessary regulatory measures which allow the timely and spatially targeted testing of future oriented technologies and operational models.
- The renewal of current planning processes and instruments in order to make them more dynamic, while still maintaining planning and legal security. This is necessary to combat the current problem that dynamic economic and social processes, which are strengthened by the megatrends, are meeting relatively immobile spatial planning structure.

One example of such a pilot approach is the new 'Programme for Mountainous Areas' which was launched as part of the New Regional Policy programme for 2020-23. The Federal Council decided to address the needs of mountains highlighted in the new programme through specific pilot measures across 277 municipalities in mountain areas in 16 cantons.

- In **Germany**, the new nationwide regional policy system for structurally weak areas includes a new programme, Region Future, which will fund new pilot approaches. Region Future will be funded by non-absorbed funding from the GRW, the main nationwide regional policy instrument, as well as possibly from other programmes. Funding will be allocated on a competitive basis for pilot projects that generate lessons for other regions. Most funding will be targeted on the GRW areas but up to ten percent of funding could be spent elsewhere. A study was commissioned in 2019 to develop ideas for Region Future. The federal authorities plan to finalise the legal framework (*Richtlinien*) for the programme by the end of 2020, and to implement the first round of funding allocation decisions in 2021.
- In **Austria**, a project launched by the Department for Coordination, Regional Policy and Spatial Planning in 2019 aims to experiment with ways to empower regions to contribute to sustainable spatial development. Results will feed into the programming process of the 2021-27 programme period of Cohesion and rural development policy.
- In **France**, options for experimental cooperation initiatives between sub-national authorities as well as for 'territorial differentiation', under which a particular policy task could be implemented differently by different authorities, is currently under consideration.





4 DEALING WITH LONG-TERM 'MEGATRENDS'

Alongside these recent developments in regional policy, regional policies are paying increasing attention to the significant and diverse impact of global 'megatrends' of digitalisation, demographic shifts and climate change, highlighted above. These employ several of the 'place-based' approaches noted in Section 3 to address these long-term challenges.

4.1 Leveraging digital innovation

A strategic focus on digital investment under regional policy is apparent across European countries, covering a range of priorities. This is emphasising the role of digitalisation in fostering territorial cohesion and inclusion (e.g. through the roll-out of broadband in remote and rural regions and improving access to e-government, e-health, and digital skills) and also in supporting digitalisation of firms and the take up of advanced technologies. In several countries, the growing importance of digitalisation in regional policy is reflected in its prominence in new national strategic frameworks, often as a specific priority (e.g. **Sweden**). In the case of the new Regional Development Decision in **Finland**, digitalisation is a theme that cuts across all of its priorities (mitigation of climate change, sustainable community development, economic renewal, knowledge and education and increasing inclusion and well-being. The Decision in particular notes the importance of digital equality, which aims to ensure that no population group is excluded from the opportunities it provides.

In some countries the regional policy focus on digitalisation is part of measures for regions with specific challenges or needs. In **Switzerland**, the role of digitalisation in regional policy has gained a higher profile in recent years. This interest is reflected by a strategic focus of the New Regional Policy (NRP) on digitalisation, particularly in mountainous and rural areas. In **Germany**, the new nationwide regional policy system for structurally weak areas includes a focus on broadband and digitalisation. Digitalisation has also become a prominent theme in **Italy**. The 'Industry Plan 4.0', though strictly industrial, rather than regional, policy, aims to mobilise investment in digitalisation in the Mezzogiorno and one of the aims of a new Budget Law 2020 is to reform tax incentives to support the digital transition process of businesses.

The increasing prominence of digitalisation in regional policy agendas is reflected in governance initiatives and institutional reorganisation that is seeking to strengthen coordination and coherence of measures (e.g. **Norway**, see Box 6)



Box 6: Norway: Ministry change to strengthen regional policy and digital agenda links

In Norway, at the national level responsibilities for regional policy are held by the Department for Regional Development in the Ministry of Local Government and Modernisation (KMD). In January 2020 a minister for 'districts and digitalisation' was appointed within KMD; unusually, this is a second minister. This can be seen as upgrading the importance of regional policy issues within the ministry as a whole. The linking of regional policy with the digital agenda marks an important shift. The two policy areas have not been explicitly linked in the past – although for a short time upgrading broadband in certain areas was part of KMD activity. This portfolio goes far wider than any previous such involvement and extends to the range of issues considered under the EU digital agenda such as digital skills and jobs, artificial intelligence, blockchain, digital inclusion etc.

KMD has begun to devise a strategy on the links between regional development and digitalisation, developing three strands to follow up: urban and rural issues; mountains; and coastal areas. This is likely to result in policy initiatives later in 2020 that aim to use digitalisation to boost regional development and maintain population settlement. This sits within a wider agenda to improve efficiency and address major societal challenges, reflected in a White Paper from KMD on innovation in the public sector.⁵³ The division of the ministry has also affected internal arrangements in the Regional policy department of KMD. The main emphasis is on more coordination with other ministries, trying to track and understand their activities more closely and proactively and to look for ways of increasing the impact and influence of regional policy objectives in other ministries' thinking.

4.2 Dealing with demographic shifts

Regional policy responses to complex territorial impacts of processes of migration and population ageing combine economic and social objectives. Regional policy is addressing the threat demographic change poses to territorial cohesion, the pressure placed on the provision of services and the risk of increasing social polarisation.

In some contexts, this relates to the high concentration of population in urban areas and the threats posed are to environmental conditions, sustainability and the well-being of those living and/or working in them. For instance, overconcentration of the population in certain urban areas can lead to undesirable side-effects, such as congestion, rising housing/transport prices, pollution, deterioration of the quality of life, and urban sprawl. In parts of **Belgium**, for instance, key challenges concern substantial demographic growth, based on domestic and international immigration, which increases demand for jobs and housing. The new government of the Brussels-Capital region, in place since mid-July 2019, has defined its priorities as the transition towards a circular economy, the improvement of the situation of social housing and the protection of the environment.





Elsewhere, the emphasis is on addressing issues of population ageing and outmigration in rural and peripheral areas.

- In **Norway**, a Commission on Demographics in the Districts has been set up to examine the consequences of demographic challenges for the municipal, State and private sectors.⁵⁴ Attracting and retaining young people is regarded as crucial to the future of the districts and a 'youth panel' has been established to make an input into the process.⁵⁵ Several countries perceive demographic processes from a labour market perspective, not least due to territorial differentiation in economic activity rates, issues of labour supply and the provision of skills.
- In **Sweden**, it is foreseen that skills supply will be one of the priorities of the national growth policy after 2020. A government study in 2020 highlighted a clear pattern of skill divergence across the Swedish regions, reinforced by the mobility of highly educated people and coinciding with a decline in income convergence across the regions. Rural areas are facing challenges with skills supply in areas such as health care, schools and technical professions.⁵⁶
- In **Finland**, there is interest in adopting a new so-called 'Smart Shrinking' approach, which takes into consideration the decreasing population and the impacts this has on economic development and on other issues such as the delivery of services (e.g. through mobilising endogenous resources, promoting social innovation and ICT, fostering ecosystem services and the green economy).
- The objective of correcting territorial imbalances by boosting the development of areas in the interior suffering from depopulation continues to be an important focus of regional policy in **Portugal** (see Box 7).

Box 7: Addressing depopulation in Portugal - the Programme for Enhancement of the Interior

In 2020, the Portuguese government approved a revision of the Programme for Enhancement of the Interior.⁵⁷ This Programme (previously called National Programme for Territorial Cohesion) has been running since 2016 aimed at correcting territorial imbalances by boosting the development of areas in the interior experiencing depopulation. The initiatives included in the revised Programme are grouped in four priority axes: (i) enhancing endogenous resources and business capacity in the interior; (ii) promoting cross-border cooperation for the internationalisation of goods and services; (iii) capturing investment and retaining people in the interior, and (iv) making interior territories more competitive.

A range of measures have been included over time in the programme: reinforcement of tax benefits for investment in the interior; an Investment Attraction Programme for the Interior, including a specific support line for the Interior for Business Projects of Strategic Interest; specific calls for the interior territories to support business investment; reinforcement of mechanisms for transferring public services to the interior; incentives for geographical mobility, in particular for public officials; reduction in corporate income tax for companies located in the interior; reducing toll rates for vehicles used for transporting goods in the interior, with an additional reduction for companies located in these territories; and, ensuring the regional redistribution of vacancies in public higher education. Portugal is also involved in cross-border cooperation with Spain on this issue. In 2018, a joint working group was created to focus on the issues of depopulation and desertification in the Portugal-Spain cross-border area.



4.3 Adapting to climate change

Regions are recognised to play a key role in the mitigation of climate change and in the transfer to carbon neutral circular economy. Therefore climate change is increasingly considered both at the national and regional strategic decision-making and planning of activities. In **Finland**, for example, the new Regional Development Decision, adopted on 19 March 2020, includes among its priorities the mitigation of climate change and the safeguarding of biodiversity. Sustainable development is covered in its different dimensions (social, economic, ecological, cultural), in line with the UN's Agenda for Sustainable Development and these are underlined as the foundation for regional development. (The implications of climate change are examined in more detail in a separate EoRPA paper⁵⁸).

Another example can be found in **the Netherlands** where a national programme Regional Energy Strategy (*Regionale Energiestrategie*, RES) has been developed since 2019. Currently 30 regions are working with societal partners on multi-annual programmes that translate the 2019 Climate Agreement into regional energy challenges. Provinces, regional public water authorities and municipalities have to agree a RES that fits their bespoke provincial and municipal environment planning strategies in consultation with a range of other sectors.

5 CONCLUSIONS AND ISSUES FOR DISCUSSION

The current regional policy context in Europe is framed by the entrenchment of inequalities arising in a broad range of regions. Recent research has raised concern about the risk of regional 'development traps' with a number of heterogeneous EU regions experiencing lengthy periods of low growth, weak productivity increases, low employment creation or even loss. From a policy perspective, several challenges arise from this. First, in terms of spatial targeting, there is a risk that the problems facing some territories are not fully addressed as national policies often target the wealthiest and most dynamic places while EU Cohesion Policy aims to strengthen the least developed regions. Second, there is the need for policy to recognise the dynamic aspect of these processes: rather than a 'static' understanding of regions according to levels of development, policy should respond to the dynamics of regionally embedded economic, institutional, and social structures. Current regional policy thinking emphasises the importance of flexible 'place-based' or 'place sensitive' regional policy responses that vary depending on the severity, length, direction of the development trap, the levels of wealth of the region, and its wider institutional setting. However, this is a challenging prospect for policy-makers.

- **Is the entrenchment of inequalities in countries prompting a shift in how regional policy rationales are conceptualised?**
- **Place-based policies are being widely advocated as a regional policy approach but are challenging: what has been the experience to date?**





A key issue for regional policymakers is variation in institutions and quality of governance in overcoming regional social and economic disparities. Sufficient capacity is crucial to determine the optimal mix of investment priorities, achieve vertical and horizontal coordination to deliver integrated development strategies (sometimes involving functional geographies rather than administrative boundaries) and to open the policy process to a broad range of actors, particularly at sub-national levels. The impact of even well designed regional development policies will be hampered or restricted where the institutional capacity to implement them is limited.

- **What initiatives have proven to be effective, to date, in building quality and capacity of governance, especially at regional levels?**

Going forward, regional policies will have to anticipate and address the varied territorial impacts of three types of global megatrends: digitalisation, demographic shifts and climate change. These 'megatrends' present challenges for even the most developed regions. In addition, there is a growing focus on the needs of population groups and comparable measures of quality of life and wellbeing are increasingly used to look beyond the functioning of economies to also consider a diverse range of living conditions wellbeing. Effective policy responses will need to address this diversity, for example by introducing new strategic objectives, targeting new investments and adjusting multi-level governance systems to make them more responsive to regional conditions.

- **What is the distinctive or complementary role of regional policy in addressing the economic and social effects of global megatrends?**





6 ANNEX: RECENT REGIONAL POLICY DEVELOPMENTS IN EORPA COUNTRIES

6.1 Austria

The higher profile of **rural areas** in Austrian policy making has continued and is evidenced in a number of ways. A master plan for the future of rural areas was finalised in 2017⁵⁹ and the reorganisation of institutional responsibilities for regional policy and rural development in 2018 further supported its implementation. The bodies responsible for regional policy and rural policy are now located in the same Ministry (originally the Ministry for Sustainability and Tourism and, from January 2020, the Federal Ministry of Agriculture, Regions and Tourism) and certain tasks carried out by departments in the same Directorate-General (Tourism and Regional Policy).

In terms of the **role of regions** in Austria, understood as the territorial level between municipality and *Land*, a project launched by the Department for Coordination, Regional Policy and Spatial Planning in March 2019 is expected to make an important contribution.⁶⁰ The project aims to identify ways in which regions can be empowered to contribute to a sustainable spatial development. The approach is similar to the one adopted by the 2014 ÖREK partnership 'Strengthening regional levels'.⁶¹ Results will feed into the programming process of the 2021-27 programme period of Cohesion and rural development policy. Intermediate findings suggest the potential for the establishment of an Austrian platform for regions. This could be drafting a roadmap to strengthen Austrian regions, with a time horizon of 2030. The results will be presented at a final event on 22 October 2020.

Preparations for the next edition of the spatial development concept ÖREK 2030 are also underway.⁶² On the basis of workshops held in November 2019 and February 2020, an external team of experts developed a first proposal for the mission statement. This was discussed and developed further over the summer 2020, in order to be presented at an online conference at the end of September.

A 2020 **study analysing the quantitative effects of Structural Funds** in Austria since the country's EU accession in 1995 identified a positive and significant correlation between ESIF expenditure and the development of the regions supported, as well as noticeable effects on gross value added.⁶³ Disparities between the regions, in terms of key economic indicators such as value added and employment, are decreasing, as less developed regions have caught up. This is in contrast to the majority of EU countries, in which regional disparities are increasing.⁶⁴





6.2 Finland

A **new Regional Development Decision** entitled 'Sustainable and Vibrant Regions' was adopted in Finland on 19 March 2020 for the period 2020-23. The Decision draws on the key principles set out in the Government Programme of Prime Minister Sanna Marin,⁶⁵ according to which regional development should be based on the strengths and special characteristics of the regions. The Regional Development Decision sets out five priorities: (i) mitigation of climate change and safeguarding biodiversity; (ii) sustainable community development and well-functioning connections; (iii) economic renewal and acceleration of RDI; (iv) knowledge and education as regional development resources; and (v) increasing inclusion and well being and preventing social inequalities.⁶⁶ Sustainable development and digitalisation cut across all the five priorities.

The discussion on regional development has increasingly focused on **developing practices that support partnerships, collaboration and networking**,⁶⁷ which is also visible in the new Regional Development Decision. The use of agreements is one way of delivering a more collaborative approach, whether between the national level and the Regional Councils or cities, or contracts amongst the regional development actors within a region. A recent proposal in this area relates to the implementation plans of the Regional Strategic Programmes. In the proposed new Law on Regional Development, set to come into force in 2021, it is suggested that the current implementation plans be transformed into partnership agreements which set out the key development measures. These agreements would be drafted on the basis of the Regional Strategic Programme, the priorities of the Regional Development Decision and the Government Programme, and would be rooted in the specific features and strengths of the entire region, taking into consideration the different urban, rural and island areas. The Regional Councils would have the overall responsibility in terms of launching the partnership and coordinating the objectives and measures with the different actors.⁶⁸

Partnership between the national and regional level is also to be fostered through regular formalised regional development discussions. These discussions are designed to give structure to the regional development dialogue across levels of government and will cover a range of topics but not result in binding decisions. The format, nature and content of the discussions will be evaluated on an annual basis.⁶⁹ The first discussions will be held in November 2020 and will focus on the regional development priorities (based on the new Decision), regional strategic programmes and the state of play with regional development drawing on statistical data.

The Regional Development Decision underlines the need to **base decisions on data and up-to-date information on the development situation of the regions**. The biannual review of the Regional Economic Prospects in Finland has been published by the Ministry of Economic Affairs and Employment since 2006 and provides the view of the ELY-centres and other regional development actors on the current state of play and future prospects in the regions.⁷⁰ In the future, this type of review will provide the basis for the future regional development discussions.



Related to this, there has been an increasing focus on the use of a **wider range of indicators** to provide a better and more accurate picture of regional development. The Regional Development Decision notes that there is scope for including additional indicators such as inclusion and safety, social networks and different dimensions of sustainability.⁷¹ There is also an interest in adopting a new so-called 'Smart Shrinking' approach, which can be particularly helpful in those regions which are facing challenges with ageing and decreasing population. The concept refers to an active adjustment work that is needed in these regions, and which takes into consideration the decreasing population and the impacts this has on economic development and on other issues such as the delivery of services.⁷²

The impact of the use of multiple locations and changed lifestyle on regional development is also being increasingly acknowledged. In addition to the primary location of homes, there is growing interest in analysing the role of other locations which cover commuting, work carried out outside home, and other residencies. This raises issues such as whether multiple locations can 'soften' the differentiated development patterns of certain regions and create new opportunities.⁷³ The multiple location concept, exacerbated by the COVID-19 crisis, poses different requirements for regional development, including the planning of transport and communication links and the delivery of services.⁷⁴

6.3 France

Regional policy in France is undergoing transformation as part of a wider set of fundamental reforms introduced by the national government of President Emmanuel Macron, elected in spring 2017. This process includes ongoing discussions relating to the overall distribution of policy competences, tasks and funding between national and sub-national authorities. A new law which is expected to further **decentralise policy competences** and strengthen the role of sub-national authorities is currently in preparation. Discussions with sub-national authorities include a focus on three 'D's': decentralisation (reviewing competences between state and sub-national level; differentiation (allowing flexibility in the way sub-national authorities can be organised and implement public policy); and deconcentration (enhancing decision making and policy competences of local state services, *Prefects*). In addition, options are currently under consideration for experimental cooperation initiatives between sub-national authorities, as well as for 'territorial differentiation', under which a particular policy task could be implemented differently by different authorities.

Institutionally, the **creation of a National Agency for Territorial Cohesion** (*Agence Nationale de la Cohésion des Territoires*, ANCT, former CGET) in 2020 marks a gradual shift in the understanding of the central state about its role in delivering regional policy. The main objectives of the ANCT are to enhance capacities of sub-national authorities through coordination of relevant actors and the provision of targeted project support, leaving project selection and management to sub-national authorities.





6.4 Germany

There have been major and wide-ranging changes in Germany's regional policy in 2019-20.

In wider context, a **revised fiscal equalisation system** came into force in 2020, following agreement between federal and *Land* authorities in 2016-17. The system aims to ensure the constitutional goal of equivalent living conditions (*gleichwertige Lebensverhältnisse*).

More specifically, **a new nationwide regional policy system for structurally weak areas was launched** on 1 January 2020, following the end of the Solidarity Pact for the eastern *Länder* (1995-2019). The new system is made up of over 20 federal government programmes focused on: business investment; research and innovation; skilled labour supply; broadband and digitalisation; infrastructure and local public services. All programmes now include a specific focus on the GRW areas throughout Germany. The system also includes a new programme, Region Future, that will fund new pilot approaches.

A **new multi-annual Coordination Framework** regulating the **main nationwide regional policy instrument**, the Joint Task for the Improvement of the Regional Economic Structure (*Gemeinschaftsaufgabe zur 'Verbesserung der regionalen Wirtschaftsstruktur, GRW*) came into force on 1 January 2020. The new framework has a stronger focus on research and innovation, including funding for capital expenditure and cooperation projects in business-oriented R&D institutes. Preparations are also ongoing **for reform of the GRW post-2021**, once the new EU Regional Aid Guidelines are introduced. The Federal Ministry for Economic Affairs and Energy has commissioned a number of preparatory studies, including on the future shape of the EU-wide regional aid map and EU-wide population ceiling, including implications for Germany.⁷⁵ Domestic decisions have been taken on the definition of the geographical units to be used for the future regional aid map and on the indicators for designating areas. Further decisions on regional ranking and methods for allocating funding between *Länder* and regions are expected in late 2020 and 2021.

An evaluation of the GRW was published in June 2020 assessing the impact of the incentive between 2009-16. The evaluation found a positive effect on employment growth in all aided firms and on business turnover in manufacturing firms but no effect on labour productivity or export intensity of aided manufacturing firms. An analysis of regional effects between 2000-17 found robust evidence of a positive correlation between GRW funding and the growth of regional employment and regional GDP and, in the longer term, with regional productivity growth. The evaluation recommendations included stronger support of productivity growth.

Finally, the federal parliament approved new laws in 2020, providing for **significant federal funding (c. €40 billion in 2019-38) for economic development in coal transition regions**, in support of domestic climate change goals. The 'Structure Strengthening Law for the Coal Regions' (*Strukturstärkungsgesetz Kohleregionen*) targets lignite regions, while the Coal



Transition Law for the Anthracite Sector (*Kohleausstiegsgesetz für den Bereich Steinkohle*) provides for more limited funding for anthracite regions.

6.5 Italy

The national government inaugurated on 1 June 2018 was formed after the signature by both involved parties of a 'Contract for the Government of Change'. This Contract, and the associated proposed legislation, included a range of measures which would have an impact on North-South and social disparities including welfare (basic income), tax (e.g. flat tax) and labour reforms (e.g. the 'dignity decree').

The Government Contract included a statement articulating the explicit choice not to proceed with 'Mezzogiorno-labelled' measures, but rather to implement interventions for the development of the whole country, taking into account the objective of overcoming north-south regional disparities and specific territorial needs.

The government also appointed a 'Minister for the South'. The role of the Minister was primarily to support accelerated expenditure of the 2014-20 Cohesion Policy programmes and strengthen cooperation with regional and national authorities in charge of programmes at risk of automatic decommitment. An important reform was also passed in relation to the domestic FSC designed to increase its accountability and effectiveness. Lastly, there was a continuation of efforts towards the strengthening of administrative capacities in 2018 and the first part of 2019, both with the measures implemented under TO11 and the launch of a second generation of Administrative Strengthening Plans.

A new government was formed in September 2019 which also includes a Minister for the South. The programme for the new government includes the following strategy for the South:

*"An extraordinary investment plan for growth and jobs in the South must be launched, also through the strengthening of the action of the public investment bank, which helps companies throughout Italy and which is dedicated to bridging the territorial gap of our country. For the most disadvantaged areas, it is necessary to promote the adoption and coordination of various regulatory and intervention tools, such as Institutional Development Contracts, Special Economic Zones, Network Contracts. The fundamental objective is to speed up the implementation of strategic projects, functionally mutually connected, to enhance the territories, making the best use of the European development and cohesion funds. This includes infrastructure, economic, production and entrepreneurial development projects relating to tourism, culture and the enhancement of natural resources, the environment, employment and social inclusion."*⁷⁶

In February 2020, the new "*Piano Sud 2030: Sviluppo e Coesione per l'Italia*" ('Plan for the South 2030: development and cohesion for Italy') was presented.⁷⁷ This new Plan aims to promote public investments over a decade perspective and set the scene for the upcoming EU programme period 2021-2027. The Plan identifies five missions: youth, connectivity and inclusion, green transition, innovation, and openness to the Mediterranean area.⁷⁸ The South 2030 Plan broadly confirms previous tools while proposing a new vision with more emphasis on





challenges caused by the growing North-South disparities and the need to boost public investments.

The main political and institutional actions also focus on cross-cutting issues relating to the strengthening of administrative capacity and the reinforcement of the public administration, aspects which are also strongly linked to the Administrative Strengthening Plans (PRAs, see section 4). A specific focus is devoted to governance and administrative capacity with 10,000 new civil servants for southern municipalities and authorities, and the fight against corruption and Mafias. The Plan also focuses on the territorial dimension, especially on marginal areas, in relation to the National Strategy for Internal Areas. The Plan should strengthen the available tools and identify specific missions (eg. addressing inequalities) that should benefit the overall situation of the entire country. Moreover, the Plan is timely for the preparations for the new 2021-2027 programming period.

6.6 The Netherlands

Regional development in the Netherlands is addressed by a complex mixture of policies at both national and sub-national level with recent reforms focusing on **enhanced sectoral integration and cooperation between national and sub-national actors**. A number of broad regional policy development trends can be identified including: a greater recognition of the regional dimension in national policy changes; stronger appreciation of the capacity of regional actors to address development challenges within their territories; and a broader scope of regional policy, in particular a greater recognition of socio-economic regional disparities and of environmentally sustainable development transitions. There is now a stronger emphasis on the need for more cooperation between ministries in integrated approaches and for more flexibility in their responses to policy development on the ground.⁷⁹ Current supra-sectoral challenges, such as the circular economy and energy transition, the nitrogen crisis, agricultural sector and the blue economy, all require carefully managed inter-ministerial cooperation and coordination with regional authorities.

Policy decentralisation has increased and taken various forms in regional economic development policies over the past decade. The expertise of sub-national actors has increased and their institutional cooperation has expanded. There is also greater confidence among sub-national actors about creating own funding schemes, although financial capacities differ strongly across regions. Regions are increasingly being defined as **functional economic areas** including, for example: labour market regions; mobility regions; regions developing Economic Development Strategies (REOS-regions) under the National Policy Strategy for Infrastructure and Spatial Planning; Regional Energy Strategy (RES) regions; Region Deal regions; and City Deal regions.

The allocation mechanism of the Regional Budget (*Region Deals*, 2018-2022) is expected to provide incentives for further regional self-organisation. The use of a 'Wellbeing lens' of social, environmental and economic indicators has highlighted sharp regional differences. The Deals



are co-funded by the central government, regional authorities and the private sector. The challenges they address vary between supporting existing growth potential, strengthening regional economies, and tackling socio-economic disadvantage. The new, flexible approach to forming partnerships that targets cross-sectoral challenges specific to the region is regarded positively and avoids relationships becoming over-institutionalised. However, the formal power and governance capacity varies between regions.

The Dutch planning system has been undergoing legal changes since 2008 and further changes are planned until 2022. A 2008 Spatial Planning Act (*Wet Ruimtelijke Ordening, WRO*) requires all levels of government to formulate structural visions but recent recognition of the planning capacities of sub-national governments has led to experimentation with new forms of regional governance. In 2022, the new Environment and Planning Act will aim to deregulate environmental law and require all levels of government to reconsider their spatial plans. There are high expectations concerning the framing capacity of the new National Environmental Planning Strategy (NOVI), notably its potential to organise the complex relations between national and sub-national governments.

Recently, however, the variation in pressures on the economy, the transfer of central tasks to sub-national administrations and the need to respond to the COVID-19 crisis have sparked an initial turn towards increasing national involvement. Recovery measures are formulated at the national level, although they may be implemented by regional institutions, and some decisions are deemed to exceed the scope and capacity of (clusters of) municipalities. A proposal for an inter-sectoral National Growth Fund (*Nationaal Groeifonds*) is in preparation, with the aim of strengthening education and R&D ecosystems and investing in key technologies and energy infrastructure, but has been postponed following the COVID-19 outbreak.⁸⁰ It remains to be seen if the increased appeal to the national level will endure after the emergency measures have concluded.

6.7 Norway

The last year or so has seen some important shifts in Norwegian regional policy. These have been shaped at least in part by **regional institutional reforms** underway for several years and which came into force at the start of 2020. Among other things, these changes reduced the number of counties while enhancing their role in economic development policy and merged some smaller and/or less populous municipalities to reduce their number too. Some of these changes have been controversial⁸¹ and have seemed to heighten urban-rural divides.⁸²

In this context, there have been two strategic developments, both of which have **emphasised district** policy. First, the **2019 White Paper 'Vibrant Communities for the Future – the district report'**⁸³ was adopted in autumn 2019. The White Paper was unusually adopted mid-term, partly in response to the tensions associated with the regional reorganisation, and focuses on districts, the rural areas, rather than Norway as a whole. This continues a move towards the





differentiation of district and regional (ie. all-region) policy and increases the focus on weaknesses that predominate in the districts – although the all-region dimension of policy still remains. These areas have always been characterised by small labour markets, limited access to private services and long distances to markets, suppliers, financial institutions and expertise. However, the inter-related issues of labour market shortages, skills-mismatch and age-dependency ratios have become increasingly pressing. The White Paper notes that a Commission on Demographics in the Districts has been set up to examine the consequences of demographic challenges for the municipal, State and private sectors.⁸⁴ Attracting and retaining young people is regarded as crucial to the future of the districts and a 'youth panel' has been established to make an input into the process.⁸⁵ As part of the White Paper programme, a Commission on Business in the Districts⁸⁶ has also been set up jointly by the Ministry of Local Government and Modernisation (KMD) and the Ministry of Industry to explore the importance of business for maintaining vibrant and sustainable communities and the relationship between district and business development policies. The Commission was due to report in July 2020.

The continued importance of the **location of State jobs** was confirmed in the White Paper. A potentially important new dimension in this context is the risk that the rationalisation of the counties could redistribute jobs within them, leading to new pockets of centralisation. Some pilot projects are planned involving the co-location of smaller departments of government agencies in the same labour market area with a view to enhancing cooperation and developing clusters of expertise.

The new White Paper does not make spending pledges or introduce new policy instruments, but rather provides a stocktake of the issues facing the districts, a description of the measures (also beyond KMD) that are already in place and a narrative for policy development by both national government and the new counties. The enhanced role of the counties in economic development, together with budgetary constraints on national regional policy, has **increased the emphasis on influencing the policies of 'sectoral' ministries**. This continues the long term shift away from direct spending by KMD towards policy coordination and ensuring that regional policy objectives are factored into horizontal policy design. The counties are devising more explicit regional development plans than in the past, based at least loosely around smart specialisation strategies. Counties are expected to be more strategic than previously where approaches were quite variable, partly reflecting size and administrative capacity. An explicit link is also being made with planning legislation, partly to embed economic development planning into statutory requirements. The White Paper indicates a desire to make planning more binding.

The second strategic development is the appointment, in January 2020, of a **minister for 'districts and digitalisation'** within KMD. This is a second minister and represents an upgrading in the importance of regional policy issues within the ministry as a whole. The linking of regional policy with the digital agenda marks an important shift as these areas have not been explicitly linked in the past. This portfolio has widened considerably to a range of issues considered under



the EU digital agenda such as digital skills and jobs, artificial intelligence, blockchain, digital inclusion and so on.

Domestically, the restructuring of the ministry is already affecting policy and policy development. KMD has begun to devise a strategy on the links between regional development and digitalisation, developing three strands to follow up, based on the new White Paper: urban and rural issues; mountains; and coastal areas. This is likely to result in policy initiatives in the autumn that aim to use digitalisation to boost regional development and maintain population settlement. This sits within a wider agenda to improve efficiency and address major societal challenges, reflected in another White Paper from KMD on innovation in the public sector.⁸⁷ The division of the ministry has also affected internal arrangements in the Regional policy department of KMD, with the primary emphasis being on more coordination with other ministries in order to proactively look for ways of increasing the impact and influence of regional policy objectives in other ministries' thinking.

Also relevant to the emphasis on the districts are proposals for a new **White Paper on the High North – the Arctic region**, which concerns the northernmost counties of Nordland and Troms og Finnmark. This is politically important to the government but also reflects KMD's strategy of influencing the policies of other ministries: the High North strategy is formally led by the Ministry of Foreign Affairs, but the White Paper due in autumn 2020 will be tabled with KMD as joint author.

6.8 Poland

The Polish Government is embarking on a wide-ranging reappraisal of the institutional and policy context for regional development. New directions for the policy were already set out in the Strategy for Responsible Development (SOR), launched in 2017 and now being implemented. The SOR included the objective of increased cohesion, with a mix of both regional and local integrated strategies, and place-based project intervention. Within the overall framework of the SOR, the Government in 2019 launched a new **National Strategy for Regional Development 2030 (KSRR)**, setting out a revised model for Polish regional policy. While strengthening the competitiveness of all regions remains a priority of the new KSRR, of particular note is an increased focus on 'sensitive areas' such as peripheral, rural or declining areas, alongside the main economic growth centres. There is also more emphasis on mobilising funding sources beyond Cohesion Policy. The KSRR has a timeline to 2030 and thus contributes to the development of Polish regional policy beyond 2020 when the level of EU funding is anticipated to drop significantly and domestic funding will become more prominent.

The launch of the SOR and the KSRR highlight long-term challenges in the management and implementation of Polish regional policy and the need to develop efficient **coordination arrangements** between sectoral and territorial components of development policy, between different domestic and EU funding sources and between national, regional and sub-regional





tiers. A key principle of the KSRR is conducting development policy in a manner that is territorially oriented, taking into account the specificity of individual territories, designing a package of integrated investments and bringing out the potentials of an area, often beyond the administrative boundaries. The KSRR provides three contractual arrangements to facilitate this approach: the programme contract; the sectoral contract; and the territorial agreement. An Act strengthening the management development at national, regional and local level was passed in June 2020 to support these initiatives.

At this early stage of implementation, there is a specific focus on **building the capacity** of small and medium towns and cities with substantial development challenges so that they can benefit from, and play an active part in, this revised regional policy model and associated initiatives. Current activities include building the capacity of local authorities to develop strategic plans and project proposals. To support this, legislation on the principles of development policy is being amended to prepare for a new distribution of EU funds in the next financial perspective. This has the objective of strengthening the legal basis for new contractual regional policy instruments that cut across national, regional and local governments and closely linking socio-economic planning to spatial planning. The Polish government sees Cohesion Policy investment as vital in these initiatives and in acting against increasing disparities in the economic development of sub-regions.⁸⁸

6.9 Portugal

The operationalisation of **measures to develop the interior (low density) areas**, with the aim of correcting territorial imbalance, continues to be a key focus of Portuguese regional development policy. This can be seen in a range of measures including: a revision of the Programme for Enhancement of the Interior; the development of guidelines for a 'Strategy for Territorial Cohesion', promoting intra- and inter-regional cohesion of the country as a whole; and further work on a joint cross-border development strategy in cooperation with Spain. A **Ministry for Territorial Cohesion** was created in October 2019 which is a new department with responsibilities for the formulation, implementation and evaluation of policies for territorial cohesion, European territorial cooperation, regional development and the enhancement of the interior. The Minister for Territorial Cohesion is supported by Assistant Secretary of State for Regional Development and Secretary of State for the Enhancement of the Interior, thus ensuring the continuation of a specific Secretariat of State dedicated to the development of the interior territories.

In parallel, further steps have been taken towards **democratising territorial governance** in Portugal through the introduction of the indirect election of presidents (and one of the vice-presidents) of the Regional Coordination and Development Commissions (CCDR) by an electoral college composed exclusively by members of the respective municipal bodies. The objective is to establish a more bottom-up character to the governance of the CCDRs and this change represents a transitional step towards a potential regionalisation process, although



no timescale or final political decisions have been made in this regard. At the end of July 2019, the Independent Commission for Decentralisation, established in summer 2018, submitted its final evaluation on the organisation and functions of the State at regional, metropolitan and inter-municipal levels. This evaluation analysed, *inter alia*, the possibilities of applying different levels of decentralisation and the comparative advantages of the proposed models. The results of the Commission's work on the possibility of administrative regionalisation in the country will be the reference point for any subsequent deliberations and legislative initiatives on the matter, but it remains to be seen how any process of empowerment of regional governance in continental Portugal will evolve.

6.10 Sweden

Swedish regional growth policy is undergoing transition in terms of policy thinking, practice and institutional arrangements. The National Strategy for Sustainable Regional Growth and Attractiveness 2015-2020 is the key governing document for regional growth policy until the end of 2020. A new national strategy, entitled the '**Strategy for Sustainable Regional Development for 2021-23**' is planned to be in place for 2021. The future strategy will identify key societal challenges, which are seen to affect regional growth policy work and the regions. These are likely to continue from the previous strategy and comprise climate, environment and energy, social inclusion, demographic developments and globalisation, with the possible addition of a fifth challenge, digitalisation. *Tillväxtverket* has also recommended that the government shift the focus from regional growth policy to regional development policy. This is because regional growth policy is considered to be too narrow a concept, while regional development policy is seen to better reflect the new challenges, especially the focus on sustainability.

The Swedish Parliament added the **sustainable dimension** to the overall regional growth policy objective in December 2019, based on recommendations of the 'Agenda 2030 and Sweden' report. The sustainable development dimension covers the three aspects of sustainability, namely social, economic and environmental, and the new emphasis aims to strengthen the role of sustainability in regional growth policy work rather than create new obligations. *Tillväxtverket*, the national agency for economic and regional growth, has made a number of proposals on how to strengthen sustainability including more system-oriented working methods, improved cross sectoral and multi governance level cooperation and increased capacity for regions to introduce sustainability related initiatives.

In terms of **skill development and competences**, over the last three decades, there has been a clear pattern of skill divergence across the Swedish regions. This development pattern has been reinforced by the mobility of highly educated people and coincides with a decline in income convergence across the regions. The rural areas are facing challenges with skills supply in areas such as health care, schools and technical professions. While policy action is called upon, it remains less clear what kind of intervention would be most effective. A recent study





recommends tailored place-based policies that take into consideration each region's comparative advantages and challenges, while considering possible equity-efficiency trade-offs.⁸⁹ An evaluation of the National Strategy has also recommended increased national coordination and consensus with respect to competence / skills promotion.⁹⁰

It is foreseen that skills supply will be one of the priorities of the national growth policy after 2020. However, a report⁹¹ summarising the regions' views on the future policy highlights a number of development needs with regard to skills and competence priority including: the aim to improve the supply of competences should be integrated into the regulation on regional growth work; collaboration duties of authorities involved with competence supply, as well as the national level policy coordination in this area, should be improved to ensure coherent skills supply policy across the country; and the mandate of regional actors on skills supply should be clarified and their strategic role enhanced.

A recent study by *Tillväxtverket* has also reported the greater need for a **place-based approach to regional growth policy** in the light of the complexity of societal challenges and the need to understand the unique circumstances of different places, their capacities and their ability to cooperate. This requires knowledge beyond the regional level (e.g. functional regions, municipalities, specific areas within municipalities etc.). The study recommends a government inquiry into the conditions of regional growth policy and a pilot project to test new ways of working.⁹² This would include: analysis of the objectives and priorities of regional growth policy; responsibilities between the regional and national level; the role of administrative capacity in the delivery of national policy; and how regional growth policy relates to other policy areas.

6.11 Switzerland

The core element of regional policy in Switzerland is the New Regional Policy (NRP). The NRP is implemented as a joint task between the federal government and the cantons on the basis of a multi-annual programming approach with the aim of enhancing coordination both across levels and policy fields and across institutional boundaries. The current NRP programmes will finish at the end of 2023 and the **preparations for the subsequent period 2024-32 have already started**. In order to shape the future regional policy, SECO will launch an evaluation of the NRP in 2020, which will focus on the 2012-16 and 2017-20 programme periods. Two issues are emerging at this early stage: an increased role of sustainable development and a reconsideration of the current focus on export-oriented value creation. A recent study on megatrends and spatial development in Switzerland⁹³ recommends making increased use of experimental pilot approaches instead of launching new major policies that require lengthy legislative procedures.

Rural areas, particularly mountainous areas, are increasingly on the agenda as a focus for regional policy in Switzerland. The move from the 'old' Swiss regional policy, based on



infrastructural investment aid, to the New Regional Policy (NRP) created a perceived lack of attention to mountainous areas amongst stakeholders. Following parliamentary requests in 2017 to address this issue, the State Secretariat for Economic Affairs, SECO, decided to set up a 'Programme for Mountainous Areas' as part of the four NRP programme for 2020-23.⁹⁴ In line with the above mentioned study, in November 2019, the Federal Council decided to address the needs of mountains highlighted in the programme via specific pilot measures. Although implemented in the context of the NRP, the pilot measures are intended to act as laboratories to experiment with new policy approaches. Therefore, they operate under relaxed eligibility rules compared to mainstream NRP measures, e.g. allowing for some infrastructural investments, single-firm support and higher federal co-funding. The pilot measures started in April 2020 and have eligibility across 277 municipalities in mountain areas in 16 cantons.⁹⁵

The role of **digitalisation in regional policy** has also gained a higher profile in recent years. This interest is reflected by a particular focus of the NRP on digitalisation, which complements the traditional themes of industry and tourism in the current programme round 2020-23. SECO also published a study on broadband infrastructure in the NRP perimeter in December 2019, which took stock of the infrastructural provision and needs, and provided policy recommendations.⁹⁶

6.12 United Kingdom

The UK Government's March 2020 budget included a commitment to **'levelling up across the UK** by raising productivity and growth in all nations and regions, creating opportunity for everyone, and addressing disparities in economic and social outcomes.' Government spending on infrastructure is currently the central mechanism for raising productivity and growth to achieve the 'levelling up', including spending on roads, railways, broadband, flood defences, housing, schools, hospitals and power networks. A new National Infrastructure Strategy is expected to follow later in 2020. Several key regional policy-related elements were also included in the Spring 2020 budget including: a focus on towns and ports with support for the regeneration of high streets and town centres and consultation on ten new Freeports; a commitment to move 22,000 civil service roles out of central London over the next decade; action on regional connectivity by reviewing air passenger duty on domestic flights; additional funding for City and Growth Deals in the devolved nations; and a planned review of public spending (Comprehensive Spending Review, CSR) to boost UK regions and increase the role of wider criteria such as the wellbeing of people in poorer areas or narrowing the regional productivity gap in the allocation of funding.

However, against a background of major territorial and social inequalities across the country's regions and devolved nations, the 'levelling up' agenda faces many challenges. Not least of these challenges is the economic impact of exiting the EU, which is expected to have a severe and differentiated negative impact across UK regions when the transition period ends on 31 December 2020. The UK Government plans to create a new Shared Prosperity Fund to replace EU funding and 'to reduce inequalities between communities'. Detail on the proposed





content, budget and delivery of the Shared Prosperity Fund was expected in Autumn 2020 as part of the Government's Comprehensive Spending Review, but this faces delay in the context of the COVID-19 crisis.

The existing geography of funding within the UK is complex. Individual deals and contracts targeting specific places (e.g. cities, city-regions, towns, groups of local authority areas) are negotiated on a case-by-case basis. **New sub-regional strategic frameworks** are emerging in England, where local industrial strategies have been agreed, to facilitate more coordinated implementation of national and local funding streams and private investment. Further devolution of decision-making powers on transport, planning and skills within England is an ongoing theme, with publication of an English Devolution White Paper expected later in 2020.

Territorial policies have also been under review in the **devolved administrations**. New regional-level strategic frameworks are emerging in Scotland and Wales, alongside economic development agendas with a strong focus on social inclusion and decarbonisation. In Scotland, regional economic partnerships are being established to manage a more decentralised and coordinated approach to economic development tailored to the needs of each region. There is a policy focus on rural areas such as the islands with the passing of the Islands (Scottish) Act, and the South of Scotland, where an additional regional enterprise agency has been created. In Wales, a more localised model of regional investment is being developed as part of a new regional investment strategy while, in Northern Ireland, recent policy frameworks prioritise finding the best possible outcome from Brexit, specifically for citizens and the economy, and there is an explicit commitment to a 'balanced' regional economy, including through investment in City and Growth Deals.





Notes

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EoRPA RESEARCH

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