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**THE OBJECTIVE OF ECONOMIC AND SOCIAL COHESION  
IN THE ECONOMIC POLICIES OF MEMBER STATES**

*(No. 2009 CE 16 0 AT 018 / 2009 CE 16 CAT 014)*

**FINAL REPORT**

**PART II: COUNTRY REPORTS**

**EPRC and Euroreg**

**November 2010**



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## PREFACE

This is Part II of the Final Report of a study of the objective of economic and social cohesion in the economic policies of the Member States, commissioned by DG REGIO and submitted by the European Policies Research Centre (University of Strathclyde, Glasgow) and Euroreg (University of Warsaw) under European Commission contract no: 2009 CE 16 0 AT 018 / 2009 CE 16 CAT 014.

It comprises information on the regional problems and national policy responses for each of the 27 Member States. The country-level information was produced by the National Experts in response to a detailed checklist developed by the project team and agreed with the Commission services. It was subsequently supplemented by additional insights and expertise provided by EPRC on the basis of the Centre's long-standing comparative regional policy work for the EoRPA regional policy research consortium.<sup>1</sup> This has been complemented by comparative and national statistical data and maps, where available. The final outcome takes the form of a series of country reports, one for each of the Member States drafted by EPRC staff.<sup>2</sup> These are set out in two parts:

- First, a **statistical overview** comprising a series of tables and maps, specifically:
  - Basic data on population, population density, surface area, GDP, GDP(PPS) per head (Figure 1)
  - A time series (1999-2007) of regional dispersion of GDP per head, unemployment and employment at NUTS 2 and 3 (depending on availability and applicability)<sup>3</sup> (Figure 2)
  - A time series (1999-2007) of regional disparities in GDP, unemployment, employment and household income at NUTS 2 and 3 (depending on availability and applicability) (Figure 3)
  - A map of regional disparities in GDP per head (2005-7) in relation to the national average, generally at NUTS 2, but for some countries at NUTS 3
  - A map of designated areas for regional aid 2007-13 (where available)
  - A time series (2003-8) of cohesion-related expenditure expressed as a proportion of GDP (Figure 4)
  - Cohesion policy indicative allocations at current prices for 2007-13 (Figure 5)

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<sup>1</sup> See <http://www.eprc.strath.ac.uk/eorpa/default.cfm>

<sup>2</sup> Sara Davies, Martin Ferry, Frederike Gross, Stefan Kah, Carlos Mendez, Rona Michie, Katja Mirvaldt, Irene McMaster, Laura Polverari, Heidi Vironen, Fiona Wislade and Douglas Yuill.

<sup>3</sup> Clearly data are more limited in countries with no NUTS 2 or 3 breakdown beyond the national level, as is the case for Cyprus and Luxembourg, for example.

- An overview of the scale of EU cohesion policy and related national commitments for 2007-13 (Figure 6)
- Key areas of national spend on cohesion as identified in the national expert's report (Figure 7).
- Second, a **review of policy** comprising the following elements:
  - a **brief overview** of domestic Member State policies aimed at economic, social and territorial cohesion; their legal basis, form and importance and their relationship to EU Cohesion policy;
  - a description of their **objectives**, including where those objectives are found (constitutions, laws, White Papers, government statements etc.);
  - a review of the **regional problem**, its nature and intensity and how it is perceived within the Member State;
  - a discussion of the **policy response**, covering three main potential components of domestic economic development policies aimed at cohesion: *narrow regional policies* (such as regional aids, but also policies targeted at specific spatial characteristics); *broader regional development policies* (reflecting all-region approaches to regional development); and *sectoral measures* which either fall within the ambit of regional policies or which have explicit economic cohesion objectives;
  - a description of the main **policy features** of such economic policies aimed at cohesion and how they impact on cohesion: the *policy frameworks* within which they operate; the *objectives* of the different components of such policies; the *implementation* of these policies and whether policy delivery mechanisms help to support cohesion; and the degree of *policy coordination* to cohesion ends;
  - a consideration of the relative **importance of EU Cohesion policy** in the design of economic policies aimed at promoting cohesion, covering the *strategic objectives* of policy as well as *policy funding*, *governance* and *impact*;
  - last a brief discussion of the **impact of the economic crisis** on regional development and policy.

The country reports in Part II are complemented by an Annex which provides the statistical data in a comparative format.

The research contributions of the following national experts are gratefully acknowledged:

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## 1. AUSTRIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area	GDP (€ mn)	GDP(PPS) per head
2007	Av	Min (Nuts 2)	Max (Nuts 2)	km <sup>2</sup>	2009	EU27=100, 2006-8
8.315	99.5	21.3	4107	83844	276892	123.5

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS 2)	18.5	18.1	18.4	18.7	18.0	16.8	16.9	16.1	
GDP(PPS) per head (NUTS 3)	26.3	26.3	26.4	26.4	25.9	25.0	24.8	24.1	
Unemployment rates (NUTS 2)	28.5	33.4	35.8	42.8	42.3	40.6	39.6	44.2	45.0
Unemployment rates (NUTS 3)	30.9	36.0	39.3	44.0	43.3	41.8	40.8	45.2	46.1
Employment rates (NUTS 2)	2.3	2.5	2.6	2.5	3.0	3.5	4.1	3.4	3.8
Employment rates (NUTS 3)	3.6	3.9	4.0	3.8	4.4	4.5	4.8	4.7	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

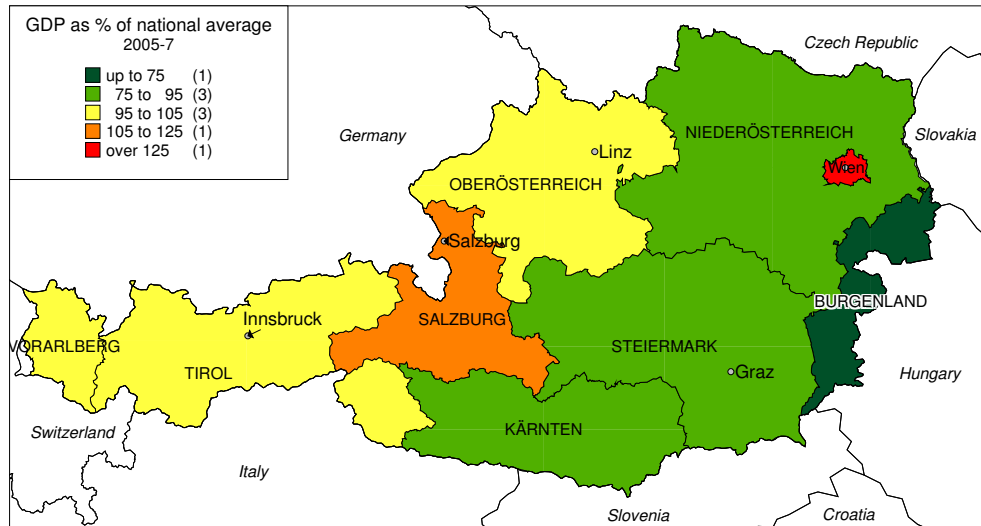
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Austria	23400	25000	24700	25800	26300	27400	28000	29400	30600
Min	15000	16100	16100	17400	17800	18800	18800	19600	20300
Max	33300	35300	35100	36900	37000	37700	37900	39500	40600
<b>GDP(PPS) per head NUTS 3</b>									
Austria	23400	25000	24700	25800	26300	27400	28000	29400	30600
Min	12600	12900	13200	13200	13500	14300	13800	14500	15500
Max	33300	35300	35100	36900	37000	37700	37900	39500	40600
<b>Employment rates NUTS 2</b>									
Austria	56.6	56.4	56.5	56.6	56.9	55.7	56.3	57.3	58.3
Min	52.7	52.3	52.4	53.3	53.1	52.8	52.8	53.3	54.9
Max	60.4	60.7	60.7	60.6	60.7	59.8	61.2	60.6	62.2
<b>Unemployment rates NUTS 2</b>									
Austria	3.7	3.5	3.6	4	4.3	4.9	5.2	4.7	4.4
Min	2.5	2.3	1.9	2.0	2.2	3.3	3.2	2.9	2.8
Max	5.7	5.8	5.9	7.2	7.8	8.9	9.1	8.8	8.3
<b>Disposable household income (PPS) per head NUTS 2</b>									
Austria	14249	15291	15071	15472	15974	16565	17442	18345	19022
Min	13007	13924	13937	14394	14954	15521	16523	17420	18128
Max	16069	17056	16630	16929	17262	17700	18280	18977	19545

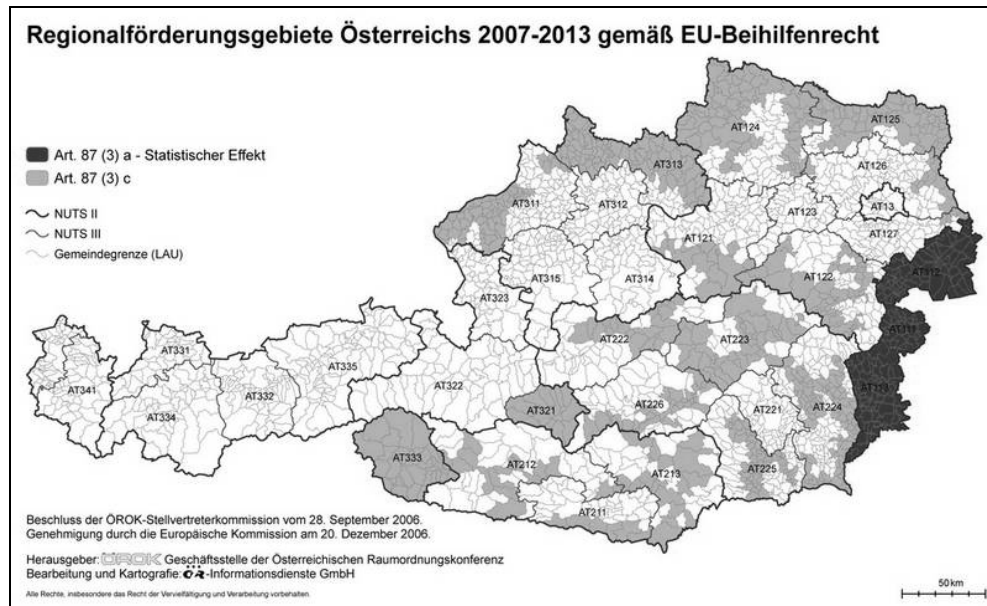
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Map 2: Regional aid map for Austria 2007-13**



Source: ÖROK, available at: <http://www.oerok.gv.at/eu-regionalpolitik/regionales-eu-beihilfenrecht/periode-2007-2013.html> (accessed 24.05.2010).

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.046	0.032	0.037	0.042	0.005	0.029
<b>EfD</b>	2.212	5.789	2.468	2.281	2.243	2.228
<b>Social protection</b>	28.7	28.5	28.0	27.7	27.1	
<b>Cohesion policy</b>	0.134	0.135	0.139	0.119	0.098	0.082

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
		177		1027	257	1461

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
1297.3	0.079	22.9	56.1	0.0631	17.3

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• National funding for SME support	€233mn (2009)	0.0841
• Land support for economic development	€1bn (2009)	0.3609
<i>Sectoral policies with Cohesion orientation:</i>		
• Active labour market policies	€930mn (2009)	0.3357
• RTDI support	c€500mn (2009)	0.1805

**Source:** National expert's report.

## AUSTRIA

### Overview

Austrian regional policy is characterised by the federal structure of the country. In respect of most policy aspects, the national level has only a coordinating role, with policy implementation usually taking place at the *Land* level. This is the case for both domestic policies and EU Cohesion policy, which is fully integrated into existing delivery structures. Fiscal equalisation is a strong and guiding element of economic and territorial cohesion: about 80 percent of all tax revenues are subject to redistribution between national, *Länder* and local levels. Fiscal equalisation comprises by far the most important financial provisions to safeguard stable local investment levels. Specific regional policies are not prominent (except in the form of broader economic development support within each *Land*), though some sectoral policies offer funding instruments with spatial implications. Cohesion policy funding is limited and generally perceived in terms of the coordination of sectoral policies.

### Objectives

Nationally, there is no specific legislation which aims to safeguard balanced development and reduce disparities. Two policy frameworks address regional and spatial inequality: the NSRF (STRAT.AT), which covers national and EU-policies and, to some extent, the linkages between them;<sup>1</sup> and the *Österreichisches Raumentwicklungskonzept* ÖREK (the Austrian Concept for Spatial Development), a ten-year spatial development plan (next due in 2011). STRAT.AT aims to build a bridge across all major development policies, based on an advanced notion of balanced development which reflects two facts: that Austria is small with no major disparities; and that there is no standard development model at the regional level. The ÖREK is concerned with territorial cohesion and is a guidance document for those responsible for spatial and regional development. Its broad objectives are to strengthen regional competitiveness and safeguard balanced spatial development; to safeguard equal access to infrastructure and knowledge; and to protect and manage the natural and cultural heritage. More generally, coordination is an important policy focus. The two key actors at the federal level - a division of the Federal Chancellery charged with the coordination of regional policies and spatial development (Division IV/4) and the Austrian Conference on Spatial Planning (ÖROK)<sup>2</sup> - have important coordination roles which, interestingly, are not based on their specific competences but rather on the willingness of institutional actors at different levels to cooperate. Finally, regional convergence (i.e. the reduction of disparities between the *Länder*) is not currently a guiding element of policy.

### Regional problem

The economic integration of Central and Eastern Europe marked a turning point in large-scale development patterns in Austria. The former east-west gradient has vanished in the past 20 years and the previously lagging east (in particular, the *Länder* of Niederösterreich, Wien and the northern part of Burgenland) have experienced sound economic growth. Growth has been especially concentrated in urban areas, i.e. Vienna, Graz, Linz, Salzburg and Innsbruck and the Rheintal in Vorarlberg. Southern parts of Austria (i.e. Kärnten, southern Steiermark and the southern part of Burgenland) have had difficulties in

participating in the comparatively sound development found elsewhere, lacking access to the main development axes and often adjoining weak cross-border areas.<sup>3</sup> Over time, development patterns and problems have become more diversified. Important areas facing specific challenges are: less-favoured areas; urban areas; mountainous areas; and border regions, with significant overlaps between them.

### Policy response

By way of introduction, it should be noted that: regional disparities in Austria are generally less significant than in many other Member States; strong federalism is an important balancing force (e.g. in respect of larger development issues - such as education and training policies - there are political and fiscal-political aspects which safeguard the proportional shares of each *Land*); from a national perspective, coordination activities lie at the heart of regional policymaking; and there is no clear demarcation line between narrow and broader regional policies. Structural Funds are seen mainly as a financing instrument.

There is no national-level regional aid scheme in Austria. Policies targeted at designated aid areas are mostly found within ERDF-programmes, although such programmes do not generally focus on designated areas *per se*. There are two main domestic funding sources for regional economic development: support from *Austria Wirtschaftsservice GmbH* (AWS) for innovation-oriented investment aid for SMEs<sup>4</sup> (annual budget €233 million), part-channelled through ERDF programmes; and *Land* support for economic development (annual budget of around €1 billion, including support for SMEs, business infrastructure and RDTI).<sup>5</sup>

The most relevant sectoral policies with regional dimensions are labour market policy and RDTI policy. Labour market policies have included elements of territorial and economic cohesion since the late 1970s when they were introduced in response to major crises in old-industrial areas in Steiermark and Oberösterreich. The Act on Labour Market Support (*Arbeitsmarktförderungsgesetz*) provides support to firms in areas with particularly high unemployment rates or structural unemployment, with a focus on job creation, training, specific local labour market challenges and equal opportunities. Overall responsibility lies with the Ministry of Labour, Social Affairs and Consumer Protection but implementation is at the *Land* level via the Labour Market Service (*Arbeitsmarktservice* - AMS) and the economic departments of *Land* governments, with payments administered by the AWS. As with other support, this scheme is closely coordinated with *Land* ERDF programmes, with the ERDF being used to provide additional co-finance. Grants in excess of €130 million (net grant equivalent) were awarded in 2006, but this fell to under €5 million in 2007.<sup>6</sup>

RTDI policies aim mainly to promote sustainable economic competitiveness, helping to support continuous innovation and technological development. Such policies are spread across three federal ministries (Ministry for Transport and Innovation, Ministry for Science and Research, Ministry for Economic Affairs) and numerous agencies, including the Agency for Support to Research (*Forschungsförderungsgesellschaft* - FFG); National Foundation for RDTI (*Nationalstiftung für Forschung, Technologie und Entwicklung*); Funds for Support to Science (*Fonds zur Förderung der wissenschaftlichen Forschung* - FWF) and the AWS. Overall funding exceeds €1 billion, with some €370 million from nine business agencies at the *Land* level. Whereas the *Länder* clearly dominate policymaking and its territorial

dimension in respect of investment aid, RTDI policies tend to see the national level in a leading position, though coordination remains the key.

Fiscal equalisation is a strong and guiding element for economic and territorial cohesion in Austria. The Act on Fiscal Equalisation (*Finanzausgleichsgesetz*) is in force for a four-year period (currently 2009-12) before being subject to renegotiation. The fiscal equalisation system is a comprehensive one (involving some €50 billion in 2001), with tax revenues shared between the *Bund* (federal), *Länder* and local levels (vertical equalisation) and with horizontal equalisation at *Land* and local levels. The Act does not include explicit cohesion objectives but, implicitly, there are major elements which ensure that tax income is close to the average for *Länder* and local levels.

### **Policy features**

There is no overarching domestic strategic policy framework which promotes cohesion. However, two key national actors - a coordination division within the Federal Chancellery (Division IV/4) and the federal-*Land* Austrian Conference for Regional Planning (ÖROK) - play important coordination roles which means that, in effect, they act as stakeholders for regional development. Their role has been strengthened by the national-EU NSRF (STRAT.AT), which has been turned into a coordination process (STRAT.ATplus), and is also supported by the ten-year Austrian Concept for Spatial Development (ÖREK).

As already mentioned, regional convergence is not currently a guiding element of policy. Instead, the main policy objective is to promote regional innovation and competitiveness (as reflected, for instance, in the investment activities of the AWS and in RTDI policy). On the other hand, at the *Land* level, different *Länder* place differing weights on competitiveness and cohesion in their Acts on Economic Development.<sup>7</sup> Measures promoting economic cohesion are important in budgetary terms, amounting to over €1 billion in *Land* development support, €500 million in RTDI and between €150 million and €300 million in AWS assistance in 2007 and 2008.<sup>8</sup> Social cohesion is anchored in the national Act on Labour Market Support (*Arbeitsmarktförderungsgesetz*); the annual budget for active labour market activities is of the order of €930 million. Finally, territorial cohesion lags behind in funding terms but is supported by a variety of documents and legislation related to spatial planning (*Raumplanung und Raumordnung*) at the level of the *Länder*. Each *Land* office of government has a department for spatial planning and many *Länder* have also prepared broader socio-economic development plans (*Landesentwicklungskonzepte*).

The key regional policy institutions at national level are the already-mentioned division of the Federal Chancellery, which is in charge of the coordination of regional policies and spatial development, and the ÖROK (Austrian Conference on Regional Planning), which is owned by the national and regional levels and can be viewed as a secretariat for working groups on issues related to regional policies (inter alia ÖROK hosts the Technical Secretariat for all Austrian RCE programmes). These bodies also have important national functions with respect to Cohesion policy implementation. However, the implementation of regional investment aid is in the hands of the *Länder*, i.e. the *Land* departments for economic development and *Land* business agencies. These agencies are also responsible for the provision of business infrastructure, such as industrial parks, incubators, technology centres

and research companies, which have become important policy instruments. In some *Länder*, the agencies have developed a specific profile, e.g. a strong focus on tourism in Burgenland and a heavy emphasis on research, innovation and cluster management in Oberösterreich. Finally, the sub-*Land*-level also plays a role. Regional management offices (*Regionalmanagements*) act as a bridge to the local level, albeit with major differences between *Länder* as regards their activities and scope of action (with a particular focus on the development of regional initiatives and project generation).

### Importance of Cohesion policy

With a few exceptions, established domestic policy institutions are in charge of implementing the Structural Funds in Austria. The Funds are seen pragmatically as a financing instrument, mostly for existing support schemes. In line with this, the programming process and the definition of specific objectives are characterised by pragmatic decisions, making it difficult to distinguish between domestic and EU policy objectives. Some longer-term strategies are mandatory, such as the NSRF (STRAT.AT) and the National Actions Plans on Employment or Innovation. In addition, there are strategies based on national policy-making processes, e.g. the already mentioned ÖREK and a variety of *Land*-level documents (e.g. Socio-economic Development Plans, *Landesentwicklungskonzept*). Part of the added value of documents like STRAT.AT is the weight they give to federal-*Land* coordination processes in both the programming and implementation phases.

Looking at Cohesion policy funding, the ERDF is the most important Structural Fund (SF), accounting for about 50 percent of overall-funding as part of SF-programmes between 1995 and 2013. Due to the fact that funding was focussed on SME support, the support rate from Structural Funds amounted to just under a quarter of the total value of all supported projects.<sup>9</sup> Currently, there is one phasing-out convergence programme (Burgenland), eight RCE programmes (one for each of the other *Länder*) and several territorial cooperation programmes. Under the ESF, there is one national programme and one priority under the phasing-out convergence programme for Burgenland. In 2000-06, over 30 percent of support flowed to SMEs and just over a quarter to large enterprises, with a further fifth for tourism; thus, in broad terms, some 80 percent of ERDF support took the form of investment aid in the regions (including tourism support).<sup>10</sup> Much of this is innovation-oriented, a pattern also found in 2007-13, when some 77 percent of ERDF mainstream funding is dedicated to R&D and innovation for enterprises. Total ERDF funding for mainstream programmes averages some €97 million per year for 2007-13. This is a relatively small amount compared the main domestic support: AWS assistance (annual budget €233 million), *Land*-level economic development support (€1 billion), national FFG research support (€424 million) and *Land* budgets for RTDI (€370 million).<sup>11</sup>

In general, Structural Funds are seen as a financing instrument in Austria. Their delivery is mostly part of the national policy delivery system and is dominated by the *Land* economic development departments and *Land* business agencies. The crucial point in programme management is the coordination between national and *Länder* institutions in order to agree the funding package for each project (utilising ERDF and/or national and/or *Länder* sources). Structural Funds programming has provided an impetus for reflection on the



coordination of the activities of institutions and the adjustment and improvement of existing support schemes. A perceived general weakness has been the integration of evaluation into the policy cycle: Structural Funds administrators tend to view evaluation as a necessity rather than as an option for debate, reflection, adjustment and improvement. The evaluation of national support schemes is rare.

In terms of Cohesion policy impacts, there is some evidence that the introduction of the ESF has had a stronger innovative influence than the ERDF in particular as regards the strengthened ties between economic and labour market policies. The implementation of ERDF mainstream programmes is marked by very conservative approaches. But still, seen from a broad perspective, the introduction of the Structural Funds triggered a number of innovative elements: multi-annual strategies and budgets; enhanced coordination activities; strengthening the regional focus of innovation policy; more transparency (i.e. monitoring and evaluation); and an increased profile for intermediaries (especially *Regionalmanagements*).

### **Impact of the crisis**

The economic crisis has hit, in particular, those regions with a concentration of export-oriented industries, such as parts of Oberösterreich and Steiermark. However, due to their fairly diversified industrial structure, these regions have proven to be relatively resilient. More generally, the expectation is that the labour market situation will not recover in 2010; that the coming years will be marked by low public investment levels and that lower private household consumption might affect, in particular, those areas strongly dependant on tourism. With respect to policy, the economic crisis has not so far had a significant impact on regional policies. There has, however, been a temporary reduction in the demand for certain regional investment support in line with the general decline of investment. On the other hand - and for obvious reasons - the interest in a number of support schemes has increased as consequence of the crisis. In respect of some sectoral policies, the AWS has expanded its budget and promised accelerated procedures for all aid instruments on offer. Also, there has been a massive expansion in financial compensation for income losses of employees facing short-time working in 2009. In addition, the Act on Labour Market Support has reacted to the regional incidence of labour market problems and support to firms has been provided throughout the crisis.

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### **ENDNOTES**

<sup>1</sup> STRAT.AT (2006), *Nationaler Strategischer Rahmenplan Österreich 2007-2013*, Wien, available at: <http://www.oerok.gv.at/eu-regionalpolitik/eu-strukturfonds-in-oesterreich-2007-2013/nationale-strategie/stratat.html> (accessed 24.05.2010).

<sup>2</sup> *Österreichische Raumordnungskonferenz*

<sup>3</sup> Please note that Burgenland is marked by a significant north-south gradient, with the north having benefitted significantly from general growth and spill-overs from the Vienna agglomeration area.

<sup>4</sup> See *Austria-Wirtschaftsservicegesetz*

<sup>5</sup> Budget data drawn from STRAT.AT, *Bericht 2009 - Annual Implementation Report 2009*, report published by ÖROK.

<sup>6</sup> Data drawn from *Austria Wirtschaftsservice (AWS), Im Focus 2007* (Business Report 2007). The 2006 figure is an above-average figure at the end of the 2000-06 programming period; the 2007 figure is well below average, reflecting the phasing in of the new programme.

<sup>7</sup> Some *Länder* mainly concentrate support on areas with high growth potential (e.g. Steiermark, Oberösterreich, Kärnten) to reduce the economic gap with the rest of the country; other *Länder* (e.g. Niederösterreich, Tirol and Salzburg) pursue more balanced territorial development and have, in some cases, set up specific support instruments for weaker parts of the territory.

<sup>8</sup> Data from Metis (2009).

<sup>9</sup> The remaining funding came from national public sources (a further quarter) and private sources (around one half) - see Gruber M, *Strukturfonds in Österreich - eine Zwischenbilanz* (Structural Funds in Austria - Interim Results, Vienna, 2009, commissioned by Austrian Conference on Regional Planning (ÖROK).

<sup>10</sup> Mayerhofer Peter *et al* (2009) *Quantitative Effekte der EU-Regionalförderung in Österreich - Eine Pilotstudie*, (Quantitative effects of ERDF-funding in Austria - pilot study), Vienna, commissioned by ÖROK.

<sup>11</sup> STRAT.AT, *Bericht 2009* - Annual Implementation Report 2009, report published by ÖROK.



## 2. BELGIUM

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
10.626	350.4	42.0	6458.7	30528	337758	116.2

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	25.2	25.3	25.4	25.4	25.0	25.2	25.6	25.5	
GDP(PPS) per head (NUTS3)	28.2	27.6	27.5	27.5	27.0	28.1	28.2	28.3	
Unemployment rates (NUTS2)	51.7	51.9	53.7	48.3	43.5	48.1	48.4	55.1	59.2
Unemployment rates (NUTS3)	53.9	54.1	56.3	50.8	45.9	50.4	50.5	57.2	
Employment rates (NUTS2)	8.0	7.9	8.0	8.0	7.7	8.7	8.4	8.7	8.6
Employment rates (NUTS3)	8.1	7.9	8.1	8.1	7.8	8.8	8.5		

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

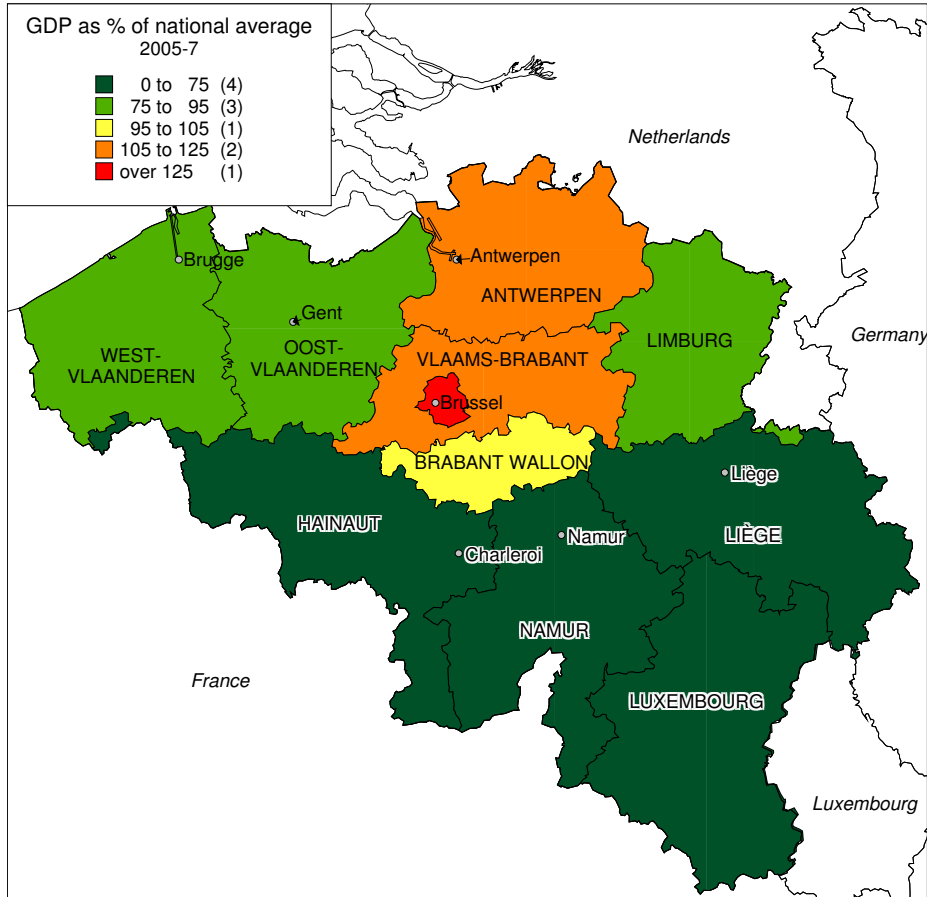
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Belgium	21900	24000	24500	25700	25600	26200	26900	27800	28800
Min	14500	15900	16100	16700	16900	17200	17700	18200	18700
Max	44600	48800	49800	52300	51400	52000	53300	54000	55000
<b>GDP(PPS) per head NUTS 3</b>									
Belgium	21900	24000	24500	25700	25600	26200	26900	27800	28800
Min	9400	10300	10600	11000	10700	11000	11300	11800	12100
Max	44600	48800	49800	52300	51400	52000	53300	54000	55000
<b>Employment rates NUTS 2</b>									
Belgium	47.7	48.5	48.0	47.9	47.6	48.1	48.8	48.7	49.6
Min	40.7	42.7	41.6	41.3	41.8	41.2	42.4	41.8	43.2
Max	53	53.9	53.1	53.1	52.2	53.3	54.2	53.1	54.0
<b>Unemployment rates NUTS 2</b>									
Belgium	8.6	7.0	6.6	7.5	8.2	8.4	8.4	8.2	7.5
Min	4.4	3.6	3.6	3.8	4.2	4.5	4.4	4.2	3.0
Max	16.1	13.9	12.9	14.5	15.6	15.7	16.3	17.6	17.1
<b>Unemployment rates NUTS 3</b>									
Belgium	8.6	7.0	6.6	7.5	8.2	8.4	8.4	8.2	7.5
Min	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Max	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
<b>Disposable household income (PPS) per head NUTS 2</b>									
Belgium	12987.6	14300.0	14803.2	15095.7	14472.1	14686.7	15071.6	15669.7	16180.9
Min	11296.2	12086.1	12674.8	12629.5	12233.4	12515.3	12939.6	13455.8	13917.5
Max	15515.5	17096.3	17710.0	18260.0	17538.8	17733.8	18205.6	18892.6	19529.8

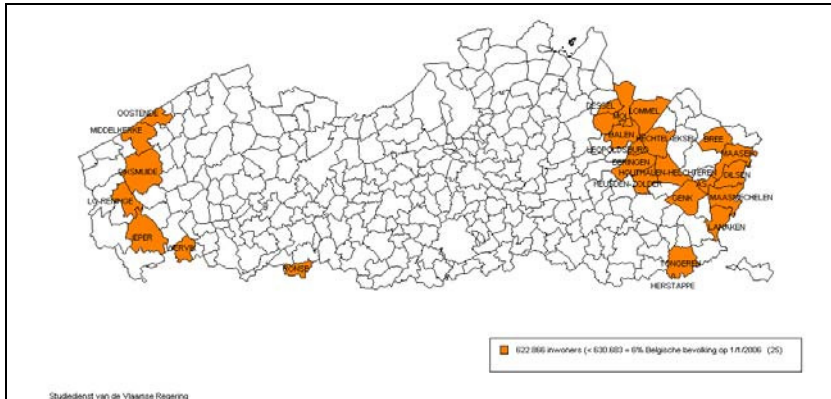
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



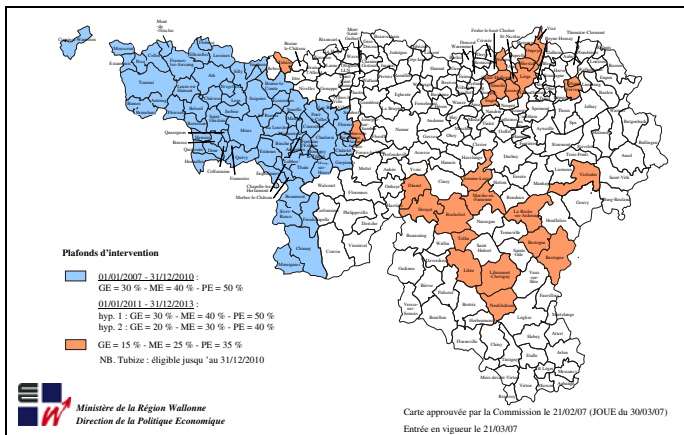
Source: Own elaboration from Eurostat data

Map 2: Regional aid map 2007-13 – Flanders



Source: Administration of the Flanders region.

Map 3: Regional aid map 2007-13 – Wallonia



Source: Région Wallonne, Direction de la Politique Economique (DPE) <http://economie.wallonie.be/02PolEco/entreprises/carte-zones%20développement%202007-2013.pps> (accessed 29.06.2010).

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**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.056	0.054	0.038	0.051	0.017	0.035
EfD	2.423	1.987	4.703	2.188	1.958	1.965
Social protection	27.7	27.8	28.2	28.8	28.0	
Cohesion policy	0.043	0.121	0.123	0.098	0.104	0.115

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
		638		1425	194	2258

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
2014.018	0.101	27.9	47.9	0.1051	28.5

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• Investment aid (Flanders)	€41.1 mn (2009)	0.0122
• Investment aid for large firms (Wallonia) <i>(please note that other existing support schemes are co-funded by the Structural Funds)</i>	€30 mn (annual av)	0.0089
• Support in 'franc zones' (Wallonia)	€35 mn (2010-14)	0.0021
• Competitiveness poles (Wallonia)	€388 mn (2010-14)	0.0230
<i>Sectoral policies with cohesion orientation:</i>		
• Urban policy (Flanders)	€123 mn (2009)	0.0365
• Development of business parks and renewal of industrial sites (Flanders)	€41.4 mn (2009)	0.0123
• Equipment of industrial estates (Wallonia)	€195 mn (2010-14)	0.0116
• Brownfield regeneration (Wallonia)	€225 mn (2010-14)	0.0133

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report and information on regional aid schemes.

## **BELGIUM**

### **Overview**

Regional development is a devolved responsibility in Belgium and the present report will focus on the two main regions, Wallonia and Flanders.<sup>1</sup> In the general context of the Lisbon agenda, policy objectives in both regions have turned to take a more competitiveness-oriented stance. This is reflected in policy framework documents developed by both regions in recent years. However, due to different specificities of the regional problem, approaches adopted by the Walloon and Flemish regions vary: Wallonia aims at providing targeted and integrated support to its lagging areas, whereas Flanders already fully embraces a horizontal approach to regional aid. Differences also exist in policy implementation (including EU Cohesion policy programmes), with a more centralised set-up in Wallonia, while in Flanders the provinces play an important role. In order to tackle income disparities between the regions, there is a significant element of fiscal equalisation.

### **Objectives**

In the absence of a regional policy at the federal level, policy objectives are formulated by the regions. These are kept rather general and neither region makes explicit reference to cohesion objectives. Wallonia aims to achieve sustainable development in a context of social cohesion. It therefore intends to pursue investment in human capital, and notably employment creation, to promote economic restructuring and thus to succeed in the transition to a knowledge society.<sup>2</sup> In the most recent declaration of the Flemish government, the importance of an innovation-driven economy and the support of entrepreneurship were underlined in order to make the region an internationally competitive, green, knowledge-based economy.<sup>3</sup> In line with this, the focus across the Ministry for Economy, Enterprise, Science, Innovation and Foreign Trade is on creative processes of innovation, entrepreneurship and internationalisation.<sup>4</sup> In the Brussels capital region, the main policy priorities are employment and housing. An important cohesion focus can notably be found in the field of urban regeneration policies.<sup>5</sup>

### **Regional problem**

Flanders and Wallonia show very different growth trajectories and levels of development with significant differences in employment rates and GDP per head (in 2006, Wallonia had a per capita GDP (PPS) of 71.9 percent of Belgian per capita GDP).<sup>6</sup> Sub-regional disparities can also be observed. This mainly concerns the position of Hainaut in Wallonia as a 'phasing-out' region which performs below the national average with 75.3 percent per capita EU GDP (PPS) in 2007.<sup>7</sup> In addition, there are still areas that face restructuring problems resulting from massive cutbacks of heavy industry; this mainly relates to socio-economic difficulties experienced by urban centres, such as Liège, Charleroi, Mons, and La Louvière. Moreover, rural areas, which cover more than 50 percent of the Walloon territory, have a very low GDP per capita. In Flanders, which is one of Europe's most prosperous regions, pockets of unemployment persist, notably in the Limburg province and around the cities of Gent and Antwerp. Another issue concerns the growing income gap between Flanders and the Brussels region due to the out-migration of wealthier inhabitants



and the in-migration of people with lower socio-economic status into the capital.<sup>8</sup> However, the regions also face common problems. They all have to tackle challenges related to the limited space available for economic development and need to deal with issues relating to the provision of infrastructure and congestion management.

### **Policy response**

Policies for regional development are defined in rather narrow terms in Belgium, concerning mainly incentives directed at firms and at the improvement of the business environment more generally. Following the abolition of federal framework legislation in 2000, the Walloon and Flanders regions adapted their regional aid legislation. In addition, they introduced broader measures to enhance the business environment.

#### Wallonia

In Wallonia, a number of narrow policy instruments operate in an integrated approach. Support is provided to large firms in assisted areas (€30 million per year),<sup>9</sup> with higher aid rates applied in the statistical phasing-out region of Hainaut.<sup>10</sup> The award rate depends on the nature of the investment programme, its innovative character and/or compliance with activity fields of political interest, such as participation in a cluster programme and/or the location of a firm in one of the urban (25) or rural (52) “franc zones”. Based on a February 2006 programme decree,<sup>11</sup> three types of *zones franches* were identified in order to enhance the attractiveness of disadvantaged zones: (i) territories facing structural economic difficulties; (ii) territories perceived to have suffered an economic shock with important consequences for the local economy; and (iii) zones of economic activity adjacent to a regional airport. In these zones, which cover the most deprived areas but also those that show some potential, more attractive taxation regimes are applied. Rural zones must be diagnosed with socio-economic difficulties and isolation as well as low population density to qualify. A number of support measures are available funded by the Impulsion Fund for Rural Economic Development (FIDER, *Fonds d’Impulsion de Développement économique rural*). In 2010-14, €22.5 million is made available for support in urban franc zones and €12.5 million in rural franc zones.<sup>12</sup> Moreover, a support scheme is in place for SMEs which receive higher award rates in assisted areas.<sup>13</sup>

Complementing the above-mentioned measures, broader policy support is also available for six competitiveness poles in key economic sectors and 14 clusters in the overall framework of a new industrial policy.<sup>14</sup> In 2010-14, an estimated €388 million will be allocated to related initiatives. This involves the mobilisation of firms, training bodies and research centres. The aim of balanced spatial development is pursued more explicitly in the context of spatial development policies. Important funds are made available in 2010-14 for the creation of new industrial estates (€182.5 million over five years) and measures for brownfield regeneration (€225 million over five years).

#### Flanders

Based on a 2003 decree, regional incentives are implemented following a horizontal approach to investment aid, environmental issues, training and advisory measures. Large

firms can apply for investment support for 'strategic' projects of over €8 million in assisted areas (€41.1 million in 2009)<sup>15</sup> (SMEs are supported in the whole of Flanders with no bonuses available in assisted areas).<sup>16</sup> All other aid measures are available throughout the region, reflecting the horizontal approach taken to firm support. Most notably, advisory and training services are offered to SMEs in the form of portfolios.

Regarding sectoral initiatives, one major policy focus is logistics under the heading "Sustainable Gateway to Europe", e.g. based on the identification and development of multi-modal "hot spots".<sup>17</sup> Another major issue is urban development, and an urban policy has been in place from 2000, including the provision of support to 13 'centre' towns and cities (a dedicated fund is in place endowed with €123 million in 2009). As in Wallonia, the provision and development of quality industrial estates is also a crucial field for balanced regional development (€41.4 million in 2009).<sup>18</sup> From 2008, related measures have been based on a multi-annual investment programme. The issue of efficient space management is further addressed in the framework of the Spatial Structure Plan.

### Brussels capital region

Development policies in the Brussels capital region are mainly concentrated on dealing with underdeveloped neighbourhoods and urban development issues more generally. Support has been provided to 'vulnerable neighbourhoods' since 1994, and the main instrument is the use of 'district contracts' (*contrats de quartier* or *wijkcontracten*). They cover a number of fields, such as housing, public spaces, infrastructure and socio-economic activities. Based on the new decree on urban revitalisation of January 2010,<sup>19</sup> they received a new impetus with the launch of 'contracts for sustainable districts' for 2010-14, placing greater emphasis on environmental issues. In this framework, four selected projects will receive €44 million.

### Fiscal equalisation

The only federal instrument in place to reduce disparities between its constituting entities is the fiscal equalisation regime. Following the delegation of competences from the federal to the regional level in 1988, personal income tax became a shared tax between the federal government and the regions. In order to organise related transfers, the application of the principle of fair return was accompanied by an equalisation mechanism, the National Solidarity Intervention (*Intervention de Solidarité Nationale*).<sup>20</sup> According to this instrument, regions with a lower than average per capita yield of personal income are entitled to unconditional transfers from the federal level. The Walloon and Brussels (since 1997) regions are recipients of such transfers, reflecting their inferior fiscal capacity, while Flanders with an above-average capacity does not benefit.<sup>21</sup> In addition, social security transfers play an important role.

### **Policy features**

In both regions, strategic policy documents are in place, which serve as a framework for regional policy implementation. There are, however, differences in terms of the division of responsibilities and coordination. At the regional level, coordination is rather complex between the Walloon and Flemish regions. Despite policy declarations underlining the

importance of closer cooperation in economic matters with Flanders, this has so far been limited to collaborations between Wallonia and Brussels.<sup>22</sup> Moreover, coordination difficulties between the regions can arise when representing Belgium in the field of regional policies at the level of the European Union.

### Wallonia

In 2005, the Future Contract for Wallonia set out the following horizontal strategic objectives: (i) activity and job creation; (ii) development of human capital and knowledge; (iii) social inclusion; and (iv) balanced territorial development.<sup>23</sup> In the following period, the first two objectives were further specified under the so-called “Marshall Plan” and implemented between 2006 and 2009. For the 2010-14 period, related commitments were renewed in the “Green Marshall Plan.2”, showing a stronger commitment to sustainable development.<sup>24</sup> In total, €2.7 billion are allocated, composed of €1.6 billion of the regional budget and €1.1 billion of ‘alternative funding’ (i.e. government loans). This includes funding provided for clusters, urban and rural ‘franc zones’ and for greenfield and brownfield measures. Together with the special status accorded to Hainaut, targeted support based on zones is available in much of the territory.

The coordination of regional policy is in the hands of the Regional Economy Unit (DPE, *Direction de la politique économique*) of the Operational General Directorate of the Economy, Employment and Research of the Walloon region, which is in charge of direct and indirect aids, management and control of regional policy. The General Directorate also communicates with the federal government regarding national and European decision-making. Spatial planning is handled by the Directorate for Spatial Planning, Housing, Heritage and Energy. The provinces have no real role in regional policy implementation, but there are efforts to bring administration closer to citizens.

### Flanders

Following on from the launch of the strategic document “Flanders in Action” in 2006, an action plan was concluded based on broad actor inclusion in January 2009, the “Pact 2020”.<sup>25</sup> Its main aims are wealth creation, a competitive and sustainable economy, job creation, high quality of life, and efficient governance. These goals are operationalised via 20 quantified objectives. As stated above, policy is implemented following a horizontal approach and, apart from the State aid map, no zoning is in place.

Policy is delivered by the Enterprise Agency (VLAO, *Agentschap Ondernemen*) which is attached to the policy field of Economy, Science and Innovation (EWI) under the Ministry of Economy, Foreign Policy, Agriculture and Rural Development. Regional aid allocation is managed by the Unit for Economic Support Policy (*Afdeling Economisch Ondersteuningsbeleid*). The main objective is to create a one-stop-shop for businesses and enhance overall policy coordination. In line with the subsidiarity principle, the provinces, as well as a number of other local authorities and bodies, fulfill an important role in the field of regional development.

### Brussels capital region

Interventions in the field of urban development are overseen by the Minister for the Environment, Energy and Urban Renewal and are managed by the Directorate for Urban Renewal which is part of the Administration for Spatial Development and Housing. The 'district contracts' are developed and implemented in close cooperation with relevant actors on the ground, notably municipalities.

### **Importance of EU Cohesion policy**

The strategic focus of regional policy at the federal level and in both Wallonia and Flanders has been strongly influenced by Lisbon objectives.<sup>26</sup> In Belgium, separate regional documents were drawn up for the National Strategic Reference Framework (NSRF) and the Lisbon Reform Programme. In Wallonia, the Future Contract and the 'Marshall Plan' were developed in close alignment with related targets and, in addition, cover a number of region-specific priorities.<sup>27</sup> Similarly, the Flemish 'Flanders in Action' and Pact 2020 documents closely reflect related ambitions, notably due to their overall horizontal orientation. In the region of Brussels capital, the ERDF is implemented in line with the 2004 government agreement and the 2005 Contract for Economy and Employment in the framework of the region's urban renewal policies.<sup>28</sup>

In terms of funding, Belgium receives just under €2.3 billion of Structural Funds in 2007-13. The Walloon region benefits from higher allocations, notably due to the ERDF and ESF convergence programmes in place for Hainaut amounting to €638.3 million. Funding channels are separate from domestic funding (e.g. in Flanders, ERDF is allocated via a separate budget heading under the main regional policy fund). However, in Wallonia, a close alignment of key projects with domestic strategies (i.e. the 'Marshall Plan') is visible, for example, in the support provided by the Competitiveness & Employment programme for cluster initiatives. This is also the case for the most important priority in funding terms, Priority 3 for 'Balanced and Sustainable Territorial Development' providing for the regeneration of industrial wasteland and urban development. Moreover, in order to concentrate funding most effectively, regional aid and Structural Funds support can be cumulated to achieve a more advantageous rate.<sup>29</sup> In Flanders, project initiatives have to come from the local level, but it is ensured that projects are in line with Flemish priorities. Project calls are launched under four priorities with funding distributed equally amongst them: (i) knowledge economy and innovation; (ii) entrepreneurship; (iii) spatial-economic environment; and (iv) urban development.

Responsibilities for the management, implementation and evaluation of Cohesion policy lie at the level of the regions. In Wallonia, all programmes are managed and run by the European Programmes Directorate (DPE, *Direction des Programmes Européens*) of the Directorate-General for Economy and Employment in the Regional Ministry, which is responsible for coordinating Structural Funds implementation. ESF programmes are managed by a dedicated agency for the French-speaking parts of Belgium. The Flemish ERDF programme is managed by the Unit Europe Economy (*Afdeling Europa Economie*) of the VLAO. The ESF programme is managed by a dedicated ESF-Agency and is linked to Flemish employment policies. The ERDF programme is delivered in close collaboration with

the provinces which fulfil the function of contact points in the processes of project development, selection and implementation. In the Brussels capital region, the ERDF programme is administered by a coordination and management unit directly associated to the General Secretariat of the regional ministry.

The impact of EU Cohesion policy requirements on domestic policy-making remains limited overall, but some influence can be observed in the field of evaluation. Since Belgium does not have a strong evaluation tradition, activities in this area have mainly developed as a result of Structural Fund requirements. In this context, a trend towards a greater focus on policy evaluation can be observed, notably at the regional level.<sup>30</sup>

### Impact of the crisis

In the context of the crisis, the Belgian Planning Office predicts increasing coherence in the development of the three regions in respect of core variables (GDP, investment and employment), potentially countering some of the existing disparities. The dramatic deterioration of public finances (both at the federal and regional level) is expected to lead to a lower structural growth of public expenditure. Given the regions' distinctive economic structures, analysts expect that Flanders will be more strongly affected by the crisis.<sup>31</sup> Besides, considerable spatial differences are appearing at the sub-regional level.<sup>32</sup> The Flemish provinces of Antwerp, West-Flanders and Limburg were hit hardest with a steep increase in unemployment.<sup>33</sup>

In Flanders, aid schemes were adapted as a result of the crisis, with award conditions being relaxed and project implementation periods extended from three to five years. Also, pre-financing amounts were increased from 30 percent to 50 percent of overall funding. In Wallonia, anti-crisis measures adopted in December 2008 were extended in February 2010. Among other things, these cover the prolongation of investment projects under regional aid schemes and ease award requirements with respect to job calculations and implementation rates. Support for industrial estates has also been facilitated in order to accelerate spending.

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### ENDNOTES

<sup>1</sup> The Brussels region is not considered in this report since its policies are largely synonymous to urban development policies.

<sup>2</sup> Gouvernement Wallon (2010) *Projet de Déclaration de politique régionale wallonne 2009-2014, Une énergie partagée pour une société durable, humaine et solidaire*, p.17.

<sup>3</sup> Minister-President Kris Peeters (2009) *Verklaring Minister-President Kris Peeters Betreffende de begrotingscontrole 2009 en de begrotingsopmaak 2010*, Vlaams Parlement 28 september 2009, p.6

<sup>4</sup> Vlaams minister van Economie, Ondernemen, Wetenschap, Innovatie en Buitenlandse Handel (2009) *Beleidsbrief 2009 - Economie, Ondernemen, Wetenschap, Innovatie en Buitenlandse Handel*.

<sup>5</sup> Gouvernement de la région de Bruxelles-capitale (2004) *Un avenir et une ambition pour Bruxelles*.

<sup>6</sup> IWEPS (2009) *Les chiffres-clés de la Wallonie*, no. 10, December 2009, p.78.

<sup>7</sup> Eurostat (2010) *Regional GDP per inhabitant in 2007*, Eurostat newsrelease, 25/2010, 18.02.2010.

<sup>8</sup> FOD Economie, K.M.O., Middenstand en Energie (2010) *Statistieken en cijfer; fiscale inkomens*, see: URL: <http://statbel.fgov.be/nl/statistieken/cijfers/index.jsp>.

- <sup>9</sup> Official Journal of the European Union (2009) *Incitants régionaux en faveur des grandes entreprises*, Reference no. X 82/09.
- <sup>10</sup> Gouvernement Wallon (11.03.2004) *Décret relatif aux incitants régionaux en faveur des grandes entreprises*, in: Moniteur Belge, 08.04.2004.
- <sup>11</sup> Ministère de la Région Wallonne (23.02.2006) *Décret-programme relative aux actions prioritaires pour l'avenir wallon*, in: Moniteur Belge, 07.03.2006.
- <sup>12</sup> Gouvernement Wallon (2009) *Plan Marshall 2.vert, Viser l'excellence*, 17.09.2009.
- <sup>13</sup> Gouvernement Wallon (11.03.2004) *Décret relatif aux incitants régionaux en faveur des petites ou moyennes entreprises*, in: Moniteur Belge, 08.04.2004; Arrêté du Gouvernement Wallon du 06 mai 2004, in: Moniteur Belge, 24.06.2004.
- <sup>14</sup> Ministère de la Région Wallonne (2007) *Décret relatif au soutien et au développement des réseaux d'entreprises ou clusters 18.01.2007*, in: Moniteur Belge, 09.02.2007.
- <sup>15</sup> Departement Economie, Wetenschap en Innovatie (2009) *EWI-Budget Browser 2009*, The Flemish government budget for Economy, Science and Innovation, p.9.
- <sup>16</sup> Vlaamse Overheid (2008) *Besluit van de Vlaamse Regering tot toekenning van strategische investerings- en opleidingssteun aan ondernemingen in het Vlaamse Gewest*, 22.02.2008. Published in: Belgisch Staatsblad, 16.04.2008. See also: Agentschap Ondernemen, Afdeling Economisch Ondersteuningsbeleid (2010), *Steun voor strategische investerings- en opleidingsprojecten*, see URL: <http://www.vlaio.be/>.
- <sup>17</sup> Vlaams minister van Mobiliteit en Openbare Werken (2009) *Mobiliteit en Openbare Werken, Beleidsprioriteiten 2009-2014, Beleidsnota 2009-2014*.
- <sup>18</sup> Departement Economie, Wetenschap en Innovatie (2009) *Op.cit.*, p.9.
- <sup>19</sup> Ministère de la région de Bruxelles-capitale (2010) *Ordonnance organique de la revitalisation urbaine*, in: Moniteur Belge, 28.01.2010.
- <sup>20</sup> *Loi spéciale relative au financement des Communautés et des Régions 16 janvier 1989*, in: Moniteur Belge, 17.01.1989, Art. 48.
- <sup>21</sup> In 2009, the Walloon region received an estimated €802.7 million and the Brussels region received €258.7 million under the National Solidarity Intervention; see: Vlaamse overheid (2009) *De Bijzondere Financieringswet in een notendop (met een illustratie voor het jaar 2009)*, Departement Economie, Wetenschap en Innovatie (EWI), Steunpunt beleidsrelevant onderzoek, p.14-16.
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### 3. BULGARIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	69.0	36.5	918.8	111002	33877	38.5

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	21.3	17.4	20.3	23.7	23.7	26.0	26.4	31.0	
GDP(PPS) per head (NUTS3)	53.0	48.1	49.9	51.5	56.6	58.8	32.6	36.7	
Unemployment rates (NUTS2)	na	na	na	na	22.0	21.6	20.8	26.3	39.1
Unemployment rates (NUTS3)	na	na	na	na	33.7	39.6	47.0	46.6	64.5
Employment rates (NUTS2)	na	na	na	na	6.6	6.9	7.2	7.3	7.1
Employment rates (NUTS3)	na	na	na	na	9.3	9.3	9.8	9.8	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

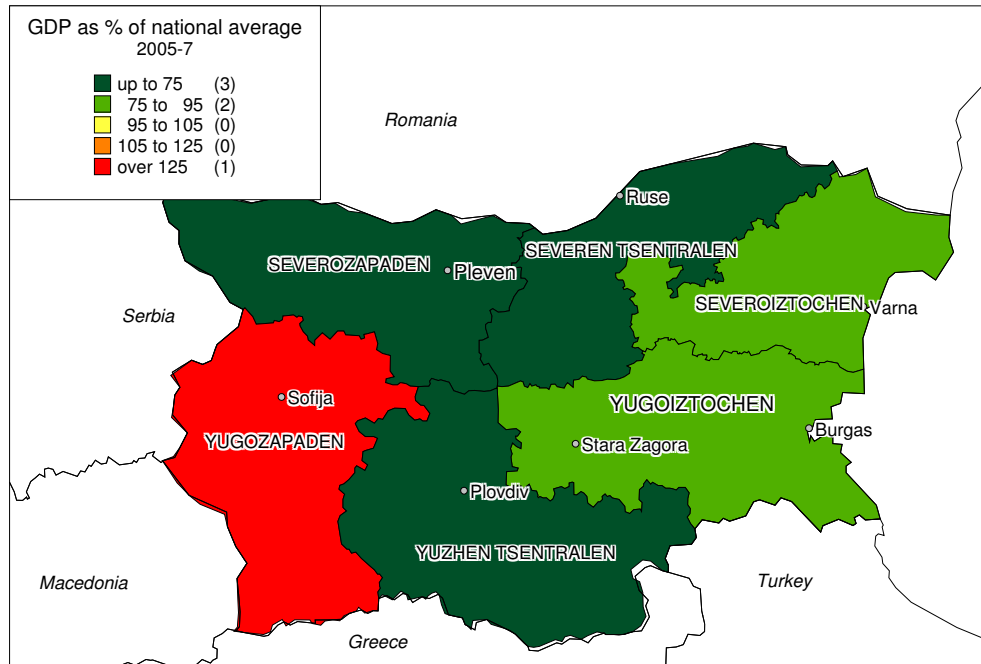
Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Bulgaria	4800	5300	5800	6300	6700	7300	7800	8600	9400
Min	3600	4000	4400	4700	5200	5600	5900	6000	6400
Max	6500	6900	8000	9200	9700	10700	11500	13500	15400
<b>GDP(PPS) per head NUTS 3</b>									
Bulgaria	4800	5300	5800	6300	6700	7300	7800	8600	9400
Min	2800	3300	3600	4000	4500	4800	4700	5000	5100
Max	8400	8700	10600	12300	12600	13900	15200	17900	21200
<b>Employment rates NUTS 2</b>									
Bulgaria	na	na	na	na	42.5	43.8	44.7	46.7	49.0
Min	na	na	na	na	36.7	37.4	37.5	39.6	42.3
Max	na	na	na	na	47.3	48.9	50.0	52.7	55.4
<b>Unemployment rates NUTS 2</b>									
Bulgaria	na	na	na	na	13.7	12.0	10.1	9.0	6.9
Min	na	na	na	na	11.0	9.4	7.6	6.5	3.9
Max	na	na	na	na	20.3	18.2	12.6	15.3	11.4
<b>Unemployment rates NUTS 3</b>									
Bulgaria	na	na	na	na	13.7	12.0	10.1	9.0	6.9
Min	na	na	na	na	8.0	4.0	5.4	3.6	2.3
Max	na	na	na	na	30.1	24.7	22.6	21.7	23.5
<b>Disposable household income (PPS) per head NUTS 2</b>									
Bulgaria	na	2295.7	2583.8	2791.4	2980.2	3500.0	3499.0	3740.3	4228.2
Min	na	1907.4	2251.9	2384.6	2590.2	3021.0	2844.8	3092.6	3575.0
Max	na	2694.7	3163.6	3323.6	3458.8	4228.8	4250.1	4495.2	5541.1

Source: Eurostat

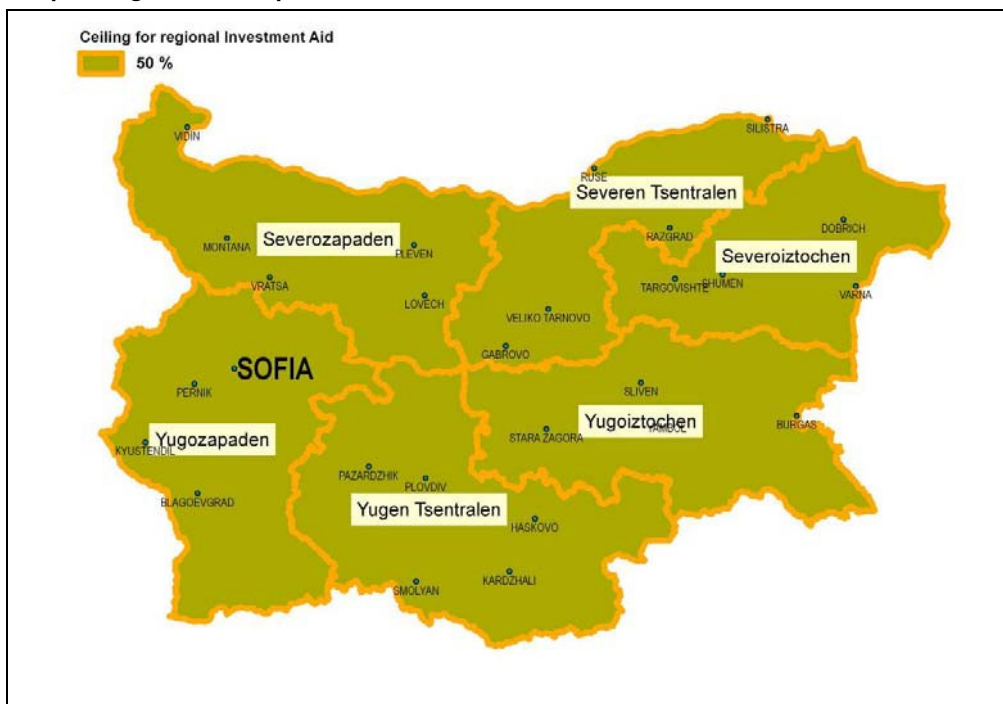


**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Map 2: Regional aid map 2007-13**



**Note:** (1) The State aid map 2007-13 shows the 50 percent ceiling which is applicable in the six NUTS 2 regions. (2) For investment projects with eligible expenditure not exceeding €50mn this ceiling is increased by 10 (medium-sized companies) and 20 percentage points (small companies) as defined in OJ L 124, 20.5.2003, p. 36. For large investment projects (eligible expenditure exceeding €50mn), this ceiling is adjusted in line with para 6 of the Guidelines on national regional aid for 2007-2013.

Source: National expert's report.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.130	0.095	0.073	0.090	0.056	0.015
EfD	2.903	2.604	2.976	3.471	3.897	4.723
Social protection	na	na	na	15.5	14.5	14.6
Cohesion policy	0.000	0.000	0.000	0.000	0.501	0.654

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
2283	4391				179	6853

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
6032.192	4.429	109.1	83.1	0.7868	63.1

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	Annual budget	% of GDP
• State Aid XR 162/07 - see OJEC 13.12.2007, C301/11	€12mn	0.0353
• State Aid N166/07 - see OJEC 29.4.2008, C108/3	BGN22mn	0.0331

**Note:** The key areas of national spend that relate to State aid (Figure 7) from 2007 until now are: (i) encouraging initial investment under the Law on Investment Promotion (State Aid XR 162/07); and (ii) regional aid (State Aid N166/07) in the form of a tax allowance under the Corporate Income Tax Act (para 184). Corporate tax is transferable up to 100 percent in respect of profits from production activities, where the taxable person carries out manufacturing activities solely in municipalities where the rate of unemployment for the year preceding the current year was higher than the national average for the same period by 35 percent or more.

**Source:** National expert's report.

## **BULGARIA**

### **Overview**

The Constitution of the Republic of Bulgaria stipulates a national commitment to addressing regional and spatial inequality. Development laws that were adopted between 1999 and 2008 define tackling regional and spatial inequality as a primary goal of regional development policy. A programme is planned, but is not yet operational, to aid so-called areas for targeted support. These cover municipalities or groups of municipalities facing serious challenges. This programme will take the form of grant assistance distributed through annual financial frameworks. Moreover, an all-region development policy exists in the shape of the system of regional planning. This comprises development plans at all territorial levels that present policy actions and sources of financing. Sectoral policy coordination is also covered under this system. In the current phase, and especially given the impact of the crisis on national budgets, most cohesion funding is channelled through EU programmes.

### **Objectives**

The Constitution includes a national commitment to addressing regional and spatial inequality. According to Article 20 “the state creates conditions for balanced development of the individual regions in the country and supports territorial authorities and activities through its financial, credit and investment policy”. Consecutive Development Acts were approved in 1999, 2004 and 2008. All three define tackling regional and spatial inequality as a primary goal. Three aspects stand out as major strategic objectives of Bulgarian regional policy that contribute to economic, social and territorial cohesion: strengthening economic competitiveness; developing human capital; and achieving territorial cohesion. These objectives are also reflected in a number of legal texts and policy documents that also describe implementation activities. These include the Investments Promotion Act,<sup>1</sup> the Strategy for the Promotion of Investments<sup>2</sup> and the National Strategy for Promotion of Small and Medium-size Enterprises 2007-2013.<sup>3</sup>

### **Regional problem**

There are significant disparities between the regions in terms of economic and infrastructure development, employment rates, income and quality of life. These disparities have increased in recent years. The majority of Bulgaria’s population is concentrated in the south of the country, where demographic trends are also more favourable. The South-West (Yugozapaden) Region, where the country’s capital Sofia is situated, has a dominant position. The GDP per capita of the South-West Region is more than 2.5 times larger than that of the other five NUTS 2 regions. All regions are characterised by structural weakness, a limited productive base and an absence of prominent innovative industries as well as infrastructure shortages. Intraregional disparities pose an even greater challenge. With the exception of the metropolitan area of Sofia, all remaining 27 districts (NUTS 3 regions) compete for higher investments, value added and the attraction and development of R&D and productive innovation. Finally, many large areas are distant from major urban centres, giving rise to a centre-periphery problem.

Particularly affected are the border and rural areas. Despite significant internal differences, the main challenges for regional development policies are related to overcoming structural weaknesses and the need to improve regional productivity, competitiveness and growth.

### **Policy response**

The Regional Development Act of 2008 provides the legislative basis for a measure to aid designated problem areas, so-called areas for targeted support. These cover municipalities or groups of municipalities that suffer from serious difficulties in achieving competitiveness, sustainable development and prosperity. In some instances, these areas overlap with mountain, border and Black Sea areas that are recognised to have special development needs. In many cases, assisted projects are envisaged to compensate for the shortage of targeted financing for small municipalities in the Bulgarian Operational Programmes (OPs) for 2007-2013, since interventions under the OPs are focused mostly on larger-scale structural problems in a given sector or in the regions.

The economic crisis has affected the launch of this new measure, which may however start operating in 2011. Support will be provided to finance concrete measures and projects based on a 'Draft Programme for the Implementation and Financing of Activities in the Areas for Targeted Support'. This is an organisational and financial instrument of the Ministry of Regional Development and Public Works (MRDPW) that will ensure annual planning of the measures and funding of activities.<sup>4</sup> The programme provides opportunities for the target municipalities to design and implement small projects (mainly of the "soft"-measures type) of local significance, as well as demonstration and pilot projects for the purposes of integrated development. The indicative financial plan of the Draft Programme amounts to about €20 million per year, while individual projects will not exceed €25,000.

The funds for programme implementation will take the shape of grant assistance by the state. The annual funds will be distributed on the basis of objective criteria through annual financial frameworks for every district. The frameworks, as well as the minimum number of projects in every district, will be defined in agreements for the administration of the programme between the Minister of Regional Development and Public Works and the respective District Governor.

An all-region development policy is implemented through the system of regional planning, which covers development plans at all territorial levels. The plans present the necessary actions and all sources of financing (EU, national, municipal, public-private partnerships). This system has manifold aims including regional competitiveness, the promotion of entrepreneurship and infrastructure development. Regional development is interpreted not only in resource distribution terms but, above all, as the coordination of sectoral policies and actions bearing on regional development. These include, in particular, transport policy and labour market policy, both of which have explicit cohesion goals. The active coordination of regional and sectoral policies is often achieved in the context of European policies (e.g. the development of European transport corridors and the close links that exist between labour market policy and EU Cohesion policy). The planned measures and projects are financed through local budgets, public investments under the sectoral programmes of

ministries, public-private partnerships and through EU Operational Programmes and the National Programme for the Development of Rural Areas 2007-2013.

In the framework of the fiscal decentralisation reform launched in 2002, an equalisation mechanism was introduced for local activities; the aim is to provide a minimum level of local services in municipalities with an insufficient local tax base.<sup>5</sup> However, while helping to ensure acceptable service levels at the municipal level, this mechanism does not have an explicit objective to promote economic cohesion.

### **Policy features**

Once operational, the 'Programme for Implementation and Financing of Activities in the Areas for Targeted Support' will be implemented on two levels. First, the Ministry of Regional Development and Public Works (MRDPW) will act as a central management unit. It will determine the annual financial framework for the districts and sign framework agreements. Second, district administrations, in which the regional management units will be established, will receive and evaluate project proposals as well as conducting management and control tasks.

The system of regional planning is carried out at different administrative levels, each characterized by specific institutional arrangements, powers, financial resources and administrative capacities. Growing emphasis on decentralization has been an important trend in recent years. This has revived an interest in local governance in the context of economic development and the mobilization of resources. Municipalities play a specific role in regional planning and in policy implementation. As self-governed administrative-territorial units, they have autonomous institutions and - albeit limited - financial resources. Local authorities generate many ideas, initiatives and projects for regional development, and they attract the private sector and NGOs to the design and implementation of regional development projects.

In recent years solutions have been found to improve coordination between the national and regional levels in the planning process and as regards the institutional framework. Planning documents at the various levels take due account of national policies and programmes, but, at the same time, amend and upgrade these as required. Thus, an interactive mechanism for consultation, coordination and the balancing of national, regional and local interests and initiatives exists. Regional development councils, which comprise national, regional and local representatives, are important forums for the coordination of sectoral activities and to obtain feedback from the territories concerned. Notwithstanding these developments, coordination remains on the agenda. Bulgaria does not yet have adequate experience in the implementation of Operational Programmes co-financed by the Structural Funds; the improvement of administrative capacity is one of the main challenges facing regional development.

### **Importance of Cohesion policy**

Bulgaria's strategic objectives and priorities have been dominated by EU Cohesion policy due to the considerable regional challenge and the sheer volume of resources that EU

Cohesion policy provides: nearly €6.9 billion of Community funding are matched by €1.4 billion from the Bulgarian government in the current funding period. The main strategic document is the National Strategic Reference Framework (NSRF). This is based on key aspects of national strategies adopted and implemented in Bulgaria. While it is not possible to determine the extent to which individual policy domains have been financed by national and EU sources between 2007 and 2009, it is safe to say that, in many policy fields and measures, EU Cohesion policy is expected to be the primary source of financing.

The above-mentioned system of regional development planning has been influenced significantly by EU Cohesion policy. For Bulgaria, the Structural Funds represent the largest source of funding for development interventions. The development plans under the system link the allocation of funds from the national budget with the respective fields eligible for funding by Structural and Cohesion Funds. Thus, Bulgarian regional development policy will, at least in the near future, be determined to a large extent by the requirements of the Structural Funds and the capacity for their absorption.<sup>6</sup>

The regional development planning documents, which integrate regional development measures and activities and indicate possible funding sources, are a reliable basis for coordinating domestic and EU Cohesion policy management, implementation and evaluation. The regional and district councils, whose functions include the review and approval of regional development and regional coordination in the implementation of EU Operational Programmes, are the institutional base for achieving an integrated approach and a more effective and efficient use of the available resources.

As a result of Bulgaria's preparations for EU accession and of accession itself, important changes have taken place in the administration and implementation of national policies. These stem from Bulgaria's experiences with Cohesion policy and include institutional changes (such as attitudes towards partnership), an acceptance of the programming approach, operational impacts (such as approaches to monitoring and evaluation) and cultural changes (increases in knowledge, motivation, capacity for development and implementation or projects). As a result of Bulgaria's experience under Cohesion policy and good practices in other Member States, a "model" of professional administration has taken on a clear shape in Bulgaria, though the necessary administrative capacity for implementing Cohesion and domestic policy is still far from established.

### **Impact of the crisis**

The economic crisis has had a massive impact on national and regional economic outputs, employment and social problems. It aggravated the regional problem and, to a certain extent, shifted its focus. At the beginning of the crisis, small predominantly industrial municipalities were most affected due to the low competitiveness of small companies and the decrease in consumer demand. Large cities and municipalities currently face the gravest problems. Although unemployment levels in these areas remain considerably lower than those in the lagging regions, the drop in economic output has been major. Growth rates of over 6 percent per annum during the 2000-08 period turned into declines of almost 6 percent in 2009 and 4 percent in the first quarter of 2010. In the long term, the impact of the crisis will lead to significant changes in regional economic structures.

The crisis has also had a strong negative effect on public investment and on the budgets of municipalities, especially larger ones. Municipalities' funds have been reduced to maintain the most urgent activities, and new investment is very limited. There has been a marked reduction of domestic financing and investment inflows. Under these circumstances, and to control the budget deficit, social and territorial cohesion are no longer accorded the same priority as in the period of high growth between 1999 and 2008. More specifically, the economic crisis has had a negative impact on the launch of the 'Programme for Implementation and Financing of Activities in the Areas for Targeted Support'. This was originally meant to be launched in 2010 but has not yet been approved. Moreover, no funds in the state and MRDPW budget have yet been allocated for its implementation.

The main source of funding to support the objectives of social and territorial cohesion in the period of crisis are programmes co-financed by the Structural and Cohesion Funds and the Programme for Rural Development, co-financed by the EAFRD.

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#### ENDNOTES

<sup>1</sup> Investments Promotion Act, promulgated in SG, Vol. 97/24 October 1997, Article 16, Paragraph 5.

<sup>2</sup> Strategy for Promotion of Investments in the Republic of Bulgaria (2005 - 2010), Ministry of Economy and Energy, 2005.

<sup>3</sup> National Strategy for Promotion of Small and Medium-size Enterprises 2007-2013, Ministry of Economy and Energy, 2007.

<sup>4</sup> Draft-Programme for Implementation and Financing of Activities in the Areas for Targeted Support 2010-2013, Ministry of Regional Development and Public Works.

<sup>5</sup> For more information, see: Savov, E. (2006) 'Intergovernmental Finance and Fiscal Equalization in Bulgaria', *The Fiscal Decentralization Initiative for Central and Eastern Europe*.

<sup>6</sup> In the longer term, support under the Programme for Implementation and Financing of Activities in the Areas for Targeted Support will increase in significance, but it has not yet been implemented.

## 4. CYPRUS

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
0.784	na	na	na	9250	16947	93.3

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	na	na	na	na	na	na	na	na	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Unemployment rates (NUTS3)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS3)	na	na	na	na	na	na	na	na	na

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

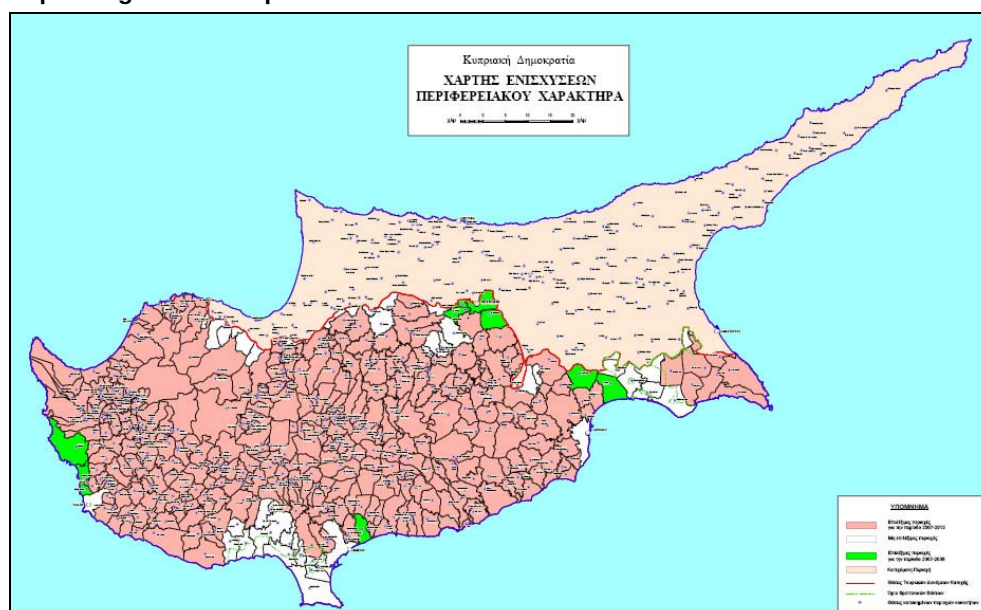
Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Cyprus	15600.0	16900.0	18000.0	18300.0	18400.0	19600.0	20400.0	21400.0	23300.0
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>GDP(PPS) per head NUTS 3</b>									
Cyprus	15600.0	16900.0	18000.0	18300.0	18400.0	19600.0	20400.0	21400.0	23300.0
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Employment rates NUTS 2</b>									
Cyprus	55.5	57.3	59.2	59.8	60.6	60.3	59.8	60.7	61.9
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 2</b>									
Cyprus	na	5.0	4.0	3.3	4.1	4.3	5.3	4.5	3.9
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 3</b>									
Cyprus	na	5.0	4.0	3.3	4.1	4.3	5.3	4.5	3.9
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Cyprus	na	na	na	na	na	na	na	na	na
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na

Source: Eurostat



Map 1: Regional aid map 2007-13



**Legend:** pink = eligible area 2007-13; white = non-eligible area; green = eligible areas for 2007/08; light pink = occupied area; red line = location of Turkish occupation forces; green dashes = British military base; blue dots = location of communities with inhabitants

**Source:** Department of Lands and Survey, Cartography branch, Section of Digital Cartography and GIS, 27.11.2006.

Figure 4: Cohesion related expenditure (% of GDP)

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.015	0.048	0.035	0.043	0.024	0.005
<b>EfD</b>	3.150	3.517	2.739	2.942	2.582	2.422
<b>Social protection</b>	18.0	17.7	18.0	18.0	18.1	
<b>Cohesion policy</b>	0.000	0.042	0.065	0.100	0.216	0.274

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
213			399		28	640

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

Figure 6: Cohesion policy 2007-13 (2004 prices)

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
579.310	0.667	115.7	84.5	0.1018	24.0

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	Annual average	% of GDP
• National development budget 2007-13	€957mn	5.7318
• Aid scheme to manufacturing SMEs 2007-13 annual budget	€2.75mn	0.0165

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report and State Aid XR143/2007.

## CYPRUS

### Overview

The relatively small size of Cyprus makes it difficult to differentiate between national sectoral policies affecting economic and social cohesion and regional policy; all national / sectoral policies are considered to have territorial impacts. In Cyprus the concept of regional development is primarily associated with balanced territorial development and the reduction of the development gap between urban and rural areas. Historically, the legal basis for development policies lies in the 1972 Town and Country Planning Law<sup>1</sup> which provides for the promotion and control of development in urban and rural areas to be pursued through Development Plans; these are largely cast in spatial planning, rather than regional economic development terms. In practice, partly owing to the political situation, this legislation has never been fully implemented. Since 1982, so-called 'Policy Statements' have been the basic planning framework for rural areas; these are revised every five years. The main current framework for economic development is the Strategic Development Plan 2007-13. This is the first development plan for Cyprus; its strategic goals are wide-ranging, but the promotion of balanced regional and rural development is one of eight policy axes. The plan was formulated to match the schedule for EU Cohesion policy. EU Cohesion policy is considered to have had a significant impact on design, monitoring and evaluation processes in Cyprus, but the EU financial contribution is relatively modest (€822 million as against the national budget of €6.7 billion for 2007-13) and it can be argued that Cohesion policy has been incorporated into domestic development policy, rather than the reverse.

### Objectives

Historically, regional development in Cyprus has been viewed from a spatial planning perspective with the 1972 Town and Country Planning Law providing for four types of Development Plan: an island plan (ostensibly including the northern part), under the responsibility of the Minister of Finance; local plans, providing for infrastructure and restrictions on development; area schemes covering smaller geographical areas and at a greater level of detail than local plans; and a statement of policy for the countryside to cover the entire country except where local plans or area schemes operate, the occupied part of Cyprus and the British sovereign bases. In practice, no island plans or area schemes have ever been produced.

The main current framework for economic development is the Strategic Development Plan for 2007-13. This comprises eight development axes: (i) enhancing economic competitiveness; (ii) research and innovation; (iii) social cohesion; (iv) environmental protection; (v) quality of life; (vi) expanding and improving basic infrastructure; (vii) development of human capital; and (viii) promotion of balanced regional and rural development. This last axis has two specific objectives: to enhance territorial and social cohesion through integrated urban regeneration; and to increase the attractiveness of rural areas by emphasising the multifunctional character of agriculture and increasing the involvement of local government in development.

### **Regional problem**

The Cypriot regional problem is characterised by an urban / rural divide and demographic and economic decline in rural areas. Most rural areas, except those close to urban centres and coastal areas, have an ageing population, a high dependency rate and outmigration. Rural incomes are relatively low due to the dependency on agriculture, and educational attainment is considerably below the national average. Rural development is hampered by poor infrastructure and public transport. While rural decline and depopulation is a longstanding issue, a relatively new dimension to the regional problem concerns a number of urban centres. Although these are small by EU standards, they share some of the social and environmental issues facing larger cities including: concentration of vulnerable social groups, decline in quality of life, deterioration of the natural and built environment and traffic congestion. In addition, the areas along the Green line (the UN buffer zone) are underdeveloped and there are emerging concerns at the environmental impact of tourism in coastal areas.

### **Policy response**

The total EU funding for the 2007-13 period totals some €822 million while, for the same period, the National Development Budget through which the total development policy in Cyprus is implemented amounts to €6.7 billion.

Narrow regional policy in Cyprus aims to improve social and geographical cohesion through the development of sustainable communities in both urban and rural areas and by promoting economic development in urban and coastal areas. With respect to rural areas, the aim is to reverse depopulation, improve the age composition of the population and rural incomes by improving accessibility and diversifying the rural economy. The main policy instruments are financial incentives to create new economic activities and develop tourism and infrastructure investment, including transport and communications, business, social and cultural infrastructure. Regarding urban areas, the aim is to promote integrated development by reinforcing territorial planning to reduce scattered development and to encourage the emergence of Nicosia, Limassol and Larnaka as well as the smaller town of Paphos as potential development poles. In addition, policy seeks to upgrade the built environment, promote entrepreneurship in disadvantaged urban areas and improve the economic integration of vulnerable social groups. As in rural areas, the principal instruments comprise financial incentives and infrastructure development, albeit targeted differently. In both rural and urban areas, two main 'soft' policy objectives are being deployed: first, the promotion of integrated town and spatial planning through an improved legal and institutional framework; and second, the reinforcement of the capacity and coordination of the local administrative system.

In a small country like Cyprus it is difficult to distinguish broad regional policy from narrow regional policy or indeed sectoral policy. Broad policies for development contributing to economic, social and territorial cohesion are associated with efforts to diversify the national economy, shift towards sectors with high added-value, improve the business environment and exploit the geographical position of the country by becoming a provider of high quality health and education services in the south-eastern Mediterranean region.

Moreover, it is not possible to distinguish between national and EU Cohesion policy objectives and targets in this area, although it is worth emphasising the very modest contribution of EU Cohesion policy to the development budget.

In the Cypriot context, two sectoral policies with explicit cohesion dimensions can be identified. First, in the transport sector a number of initiatives are being undertaken to improve provision in both rural and urban areas; these involve regulatory changes and the provision of incentives to public providers. Their anticipated cost is some €50 million. Second, in the tourism sector a number of initiatives are focused on the diversification of the rural economy, for example through the promotion of agrotourism. Some of these tourism measures are being implemented through EU funding.

There are no equalisation mechanisms with an economic cohesion objective in Cyprus.

### **Policy features**

The overall framework for policy is provided by the 2007-13 Strategic Development Plan, which was prepared in parallel with the development of the National Strategic Reference Framework. To this extent, it is difficult to disentangle national from EU Cohesion policy, although, as noted earlier, the level of co-financing is relatively modest and it can be argued that Cohesion policy has been absorbed into domestic policy rather than the reverse. Although the Strategic Development Plan has balanced regional and rural development as one of its eight axes, the scope of the Plan is extremely wide and encompasses spending on economic development generally (especially infrastructure) as well as health, education, housing and social welfare.

The overall objectives of the Strategic Development Plan relate to improved competitiveness, economic development and social cohesion. The regional and rural development axis aims are two-fold: to enhance social and territorial cohesion through integrated urban regeneration; and to improve the attractiveness of rural areas by emphasising the multifunctional character of agriculture and increasing the involvement of local government in development. The relative weight of the regional and rural development axis in spending terms cannot readily be identified since the National Development Budget is structured on the basis of Ministries rather than development priorities.

The key actor in national/regional development policy is the Planning Bureau, a government service independent of all other ministries but directly accountable to the Ministry of Finance. The Planning Bureau has overall responsibility for economic planning and the preparation and monitoring of development plans, and plays a role in sectoral coordination. A number of sectoral ministries also play a part in national development policies, given the wide range of activities involved - agriculture, tourism, industry, transport and environment.

The Planning Bureau and the Ministry of the Interior are responsible for the formulation of regional policy related to regional authorities; the Town Planning and Housing Department (within the ministry) and the District Officers (who are answerable to the ministry) are

responsible for the implementation of projects at regional and local levels. Planning and policy coordination are highly centralised, reflecting the lack of capacity for implementation by local authorities other than those for the four main urban centres, and especially those in rural areas. Nevertheless, the Strategic Development Plan identifies the need to decentralise power from central to local administrations as one of the main requirements for addressing the problem of uneven development. The aim is to improve the administrative capacity of local authorities such that they can act as beneficiaries of development projects and provide services more effectively; to date, progress on this has been modest.

### **Importance of Cohesion policy**

In terms of strategic objectives, the main impact of Cohesion policy has arguably been as a catalyst to the coordination of policies that previously operated on a purely sectoral basis. An important change in domestic policy planning is the establishment of a medium-term budgetary framework. Although Cyprus had experience in long-term strategic planning through the elaboration of five-year development plans, these were general documents which lacked clear targets, allocation of resources and mechanisms to monitor implementation.

The EU Cohesion policy financial contribution to total development expenditure in Cyprus is estimated at less than 12 percent and is thought likely to fall in view of increased national public spending in the context of the crisis. Development expenditures for the 2007-13 period are estimated to reach a total budget of €6,599.7 billion,<sup>2</sup> while at the same time the total amount of EU funding will reach €640 million. There is no budget breakdown by strand and the only available data refers to the budget per ministry. For example, the expenditure for the Ministry of Interior, through which projects related to basic infrastructure and environment in the rural areas are financed, amount to €669 million over the 2007-09 period.

In Cyprus the management and implementation system for Cohesion policy in 2004-06 was completely integrated within existing public administration structures dealing with the planning and implementation of domestic development policy. The Planning Bureau plays a key role in coordinating national and EU cohesion policies, as well as fulfilling the role of Managing Authority for EU policy and having responsibility for the preparation and monitoring of domestic development plans.

The most significant innovations due to the Structural Funds have been: the institutionalisation of partnership and consultation; stricter project selection procedures; and the introduction of monitoring and evaluation, the experience from which is also being applied to national projects.

### **Impact of the crisis**

Measures introduced in response to the economic crisis have, in principle, been horizontal in nature - projects have been promoted in all districts, including Paphos and Paralimni where the downturn has been most severe. The main focus has been on measures to

address rising unemployment in the tourism and construction sectors. The increase in public investment in construction has, however, had a spatial dimension since many of the projects are located in rural areas. The projected cost is some €604 million, of which €207 million in 2009. In addition, a range of measures has been implemented to improve training provision for the unemployed, recruitment and support for SMEs, again on a horizontal basis.

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#### **ENDNOTES**

<sup>1</sup> Town and Country Planning Law 1972.

<sup>2</sup> Strategic Development Plan, p.173.

## 5. CZECH REPUBLIC

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
10.334	133.8	65.7	2472.9	78867	134531	79.2

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	22.1	22.7	24.3	24.8	24.9	24.2	25.1	25.4	
GDP(PPS) per head (NUTS3)	22.1	22.8	24.4	24.7	24.9	24.3	25.1	25.3	
Unemployment rates (NUTS2)	33.1	38.5	38.9	43.6	41.9	41.6	45.8	44.6	41.9
Unemployment rates (NUTS3)	41.6	47.0	47.7	51.5	44.6	43.8	46.5	46.1	42.7
Employment rates (NUTS2)	5.6	5.8	5.7	5.6	5.8	5.6	5.5	5.2	4.6
Employment rates (NUTS3)	6.4	6.9	6.4	6.3	6.5	6.2	6.1	5.4	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

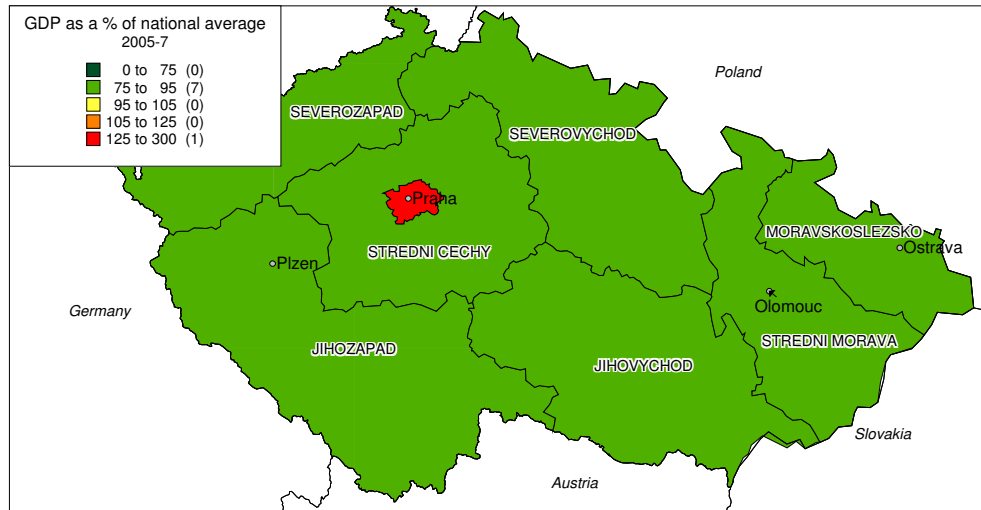
Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS2</b>									
Czech Rep.	12400	13000	13900	14400	15200	16300	17100	18200	19900
Min	9900	10200	10800	11100	11800	12900	13300	14100	15400
Max	24200	26000	28700	30200	31900	33400	35600	38300	42800
<b>GDP(PPS) per head NUTS3</b>									
Czech Rep.	12400	13000	13900	14400	15200	16300	17100	18200	19900
Min	9900	10200	10800	11100	11800	12600	12900	13100	14200
Max	24200	26000	28700	30200	31900	33400	35600	38300	42800
<b>Employment rates NUTS2</b>									
Czech Rep.	55.4	54.8	54.9	55.2	54.6	54.2	54.7	55.0	55.6
Min	51.1	49.9	49.9	50.6	49.3	49.1	50.3	50.5	51.8
Max	60.6	59.9	60.0	60.2	59.8	58.9	59.9	60.3	60.3
<b>Unemployment rates NUTS2</b>									
Czech Rep.	8.8	8.8	8.2	7.3	7.8	8.3	7.9	7.1	5.3
Min	4.0	4.2	3.9	3.6	4.2	3.9	3.5	2.8	2.4
Max	13.5	14.5	14.4	13.4	14.8	14.6	13.9	12.8	9.5
<b>Unemployment rates NUTS3</b>									
Czech Rep.	8.8	8.8	8.2	7.3	7.8	8.3	7.9	7.1	5.3
Min	4.0	4.2	3.9	3.6	4.2	3.9	3.5	2.8	2.4
Max	15.4	16.2	14.4	13.4	14.8	14.6	14.5	13.7	10.0
<b>Disposable household income (PPS) per head NUTS2</b>									
Czech Rep.	6356.8	6629.5	7033.9	7129.2	7539.4	7744.4	8309.4	8932.7	9764.7
Min	5790.1	6001.7	6373.5	6401.6	6702.0	6876.3	7362.3	7945.8	8517.1
Max	8449.2	8827.3	9532.6	9707.7	10427.5	10577.8	11225.0	12246.7	13180.5

Source: Eurostat

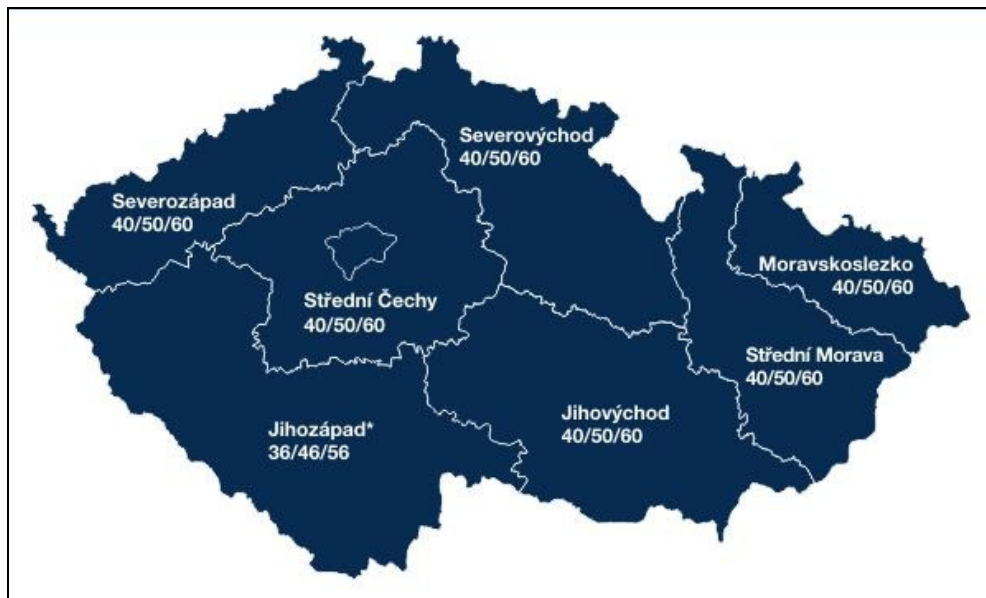


**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Map 2: Regional aid map 2007-13**



Source: Ministry of Finance of the Czech Republic, available at: [http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/zprac\\_prumysl.html](http://www.mfcr.cz/cps/rde/xchg/mfcr/xsl/zprac_prumysl.html) (accessed 28.07.2010).

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.104	0.137	0.252	0.228	0.261	0.532
EfD	6.612	6.488	6.075	6.202	5.596	6.730
Social protection	19.5	18.7	18.5	18.0	18.0	
Cohesion policy	0.000	0.183	0.151	0.408	0.721	1.136

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
8819	17064			419	389	26692

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
23637.990	3.915	331.0	85.3	0.5706	107.3

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• Narrow regional policy (regional aid) - 2007	n.a.	0.06
• Programme for revitalisation of army-related premises - 2009	CZK130mn €5mn	0.0036
• Programme for the revitalisation of the countryside - 2009	CZK150mn €6mn	0.0041
• Programme for the revitalisation of natural disaster areas - 2009	CZK1.3bn €52mn	0.3583
• Programme for economically-weak and structurally-damaged regions - 2010	CZK50mn €2mn	0.0014

**Note:** Exchange rate €1=CZK 25.2 (rate as at 11 April 2010). The original allocation for 2009 under the programme for the revitalisation of areas affected by natural disasters was CZK 100 million; this was increased to CZK 1.3 billion following major floods in Northern Moravia and Southern Bohemia in June/July 2009. The GDP percentage for narrow regional policy (0.06) is drawn from national sources and relates to official national regional policy for 2007. The higher percentage for 2009 seems attributable to the response to the floods. The higher regional aid percentage in Figure 4 may be due to a broader definition of regional aid (including general investment incentives).

**Source:** National expert's report.

## **CZECH REPUBLIC**

### **Overview**

In the early 1990's, regional development was not a major policy priority for the Czech government. At this stage, regional development disparities were not as pronounced as in many EU countries and, crucially, the government was focused on fundamental issues of national economic and political transformation. Later, subsequent growth in regional disparities, ongoing processes of democratisation and decentralisation of decision-making, and EU pre-accession aid and preparations for Structural Funds all contributed to a fundamental change in the Czech Republic's regional policy.

### **Objectives**

The Act on Regional Development Support (No. 248/2000 Sb.) is the main piece of legislation for regional policy.<sup>1</sup> The Act sets out the following objectives: balanced development and balanced development within the self-governing regions.<sup>2</sup> The Act makes provision for a number of accompanying strategic planning documents. With respect to national regional development policy, the most important in formal terms is the Regional Development Strategy. This is a high-level document which aims to inform a wide range of policies, including EU programmes, though its actual impact on the design of national sectoral policies tends to have been limited. Strategic objectives are addressed through national sectoral policies and a number of policies implemented at the regional level. Other relevant documents are the Spatial Development Policy of the Czech Republic (2006)<sup>3</sup> and the Strategic Framework of Sustainable Development of the Czech Republic (2010).<sup>4</sup> These strategies inform regional development policies, as frameworks for the preparation of future strategic documents and policies. However, they are not legally enforceable and they lack dedicated financial resources.<sup>5</sup>

### **Regional problem**

Following the collapse of communism, there was a significant sharpening of regional disparities, as metropolitan regions, most notably Prague, performed significantly better than non-metropolitan regions (e.g. Karlovarský region and the heavy industrial Ústecký region). Another important aspect of regional disparities has been the re-emergence of the traditional west-east gradient, with western regions generally performing better.<sup>6</sup> However, since the turn of the new millennium, regional disparities have tended to stabilise, although micro-regional disparities have become increasingly apparent.<sup>7</sup>

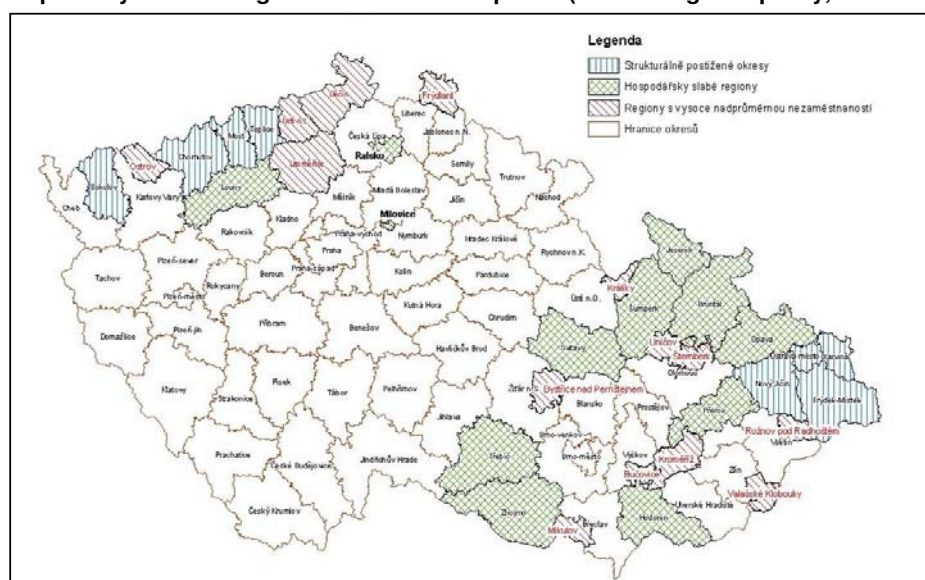
### **Policy response**

The commitment to EU Cohesion policy has contributed to an overall decrease in the national resources targeting regional socio-economic disparities and purely 'national' policy instruments. On the basis of an extensive screening procedure aimed at identifying national programmes that overlap with EU Structural Funds support, many national programmes or sub-programmes were reoriented to co-finance EU Structural Funds and Cohesion Fund programmes for the 2007-13 period. However, some aspects of purely domestic regional aid

policy continue to be implemented, although expenditure on national, narrow regional policy is low (0.06 percent of national GDP in 2007) and continuing to decline.<sup>8</sup>

Narrow regional aid is mainly targeted at areas defined under the Act on Regional Development Support No. 248/2000 Sb (see Map 3). For 2008-09, three support programmes were opened: (1) the 'Programme for the revitalisation of premises and areas previously used by the army' (2009 allocation CZK 130 million, around €5 million), which allows municipalities to obtain financial grants to reconstruct or demolish army barracks and surrounding infrastructure; (2) the 'Programme for the revitalisation of the countryside', which has an annual budget CZK 150 million (about €6 million) and provides small amounts of 'seed' money for village projects; and (3) the 'Programme for the revitalisation of areas affected by natural disasters', which is a response to the increased number of floods affecting the Czech Republic. The original budget for this programme was CZK 100 million, but this was increased to CZK 1.3 billion (around €52 million) following major floods in Northern Moravia and Southern Bohemia in summer 2009.

**Map 3: Key assisted regions in the Czech Republic (narrow regional policy, 2007-13)**



**Legend:** blue stripes = structurally-affected regions, brown stripes = regions suffering from high unemployment, green hatching = economically weak regions.

**Source:** Ministry for Regional Development (2006) *Regional Development Strategy of the Czech Republic for the period 2007-2013*.

In terms of broader regional policies, there are no national 'all-region' development policies that are not driven by EU Cohesion policy. In the past, domestically-funded active labour market policy had an implicit regional dimension, with the aim of contributing to social and economic cohesion. However, since 2004, this policy is to a large extent shaped by EU Cohesion policy.

The majority of Czech national cohesion policies are very much driven by EU Cohesion policy in terms of both financial allocations and objectives. Thus, it can be argued that there are virtually no purely national sectoral policies that explicitly address cohesion

objectives. By way of example, transport policy is clearly shaped by EU Cohesion policy in the Czech Republic. Nevertheless, national co-financing for projects supported by the Structural Funds is of major domestic importance and has a direct impact on regional development. For instance, within the Transport policy of the Czech Republic 2005-2013,<sup>9</sup> a stated objective is to ensure the balanced development of transport networks, with a view to boosting international commitments and links and cohesion between the country's regions. Consequently, when defining priorities for construction of new motorways, particular attention is given to links between regional capitals.

Another area of policy which has a 'regional' element is investment incentives policy. The Czech Republic offers investment incentives for large investors. The intensity of some incentives reflects regional socio-economic development levels. For instance, new investments in the regions with the highest unemployment can apply for higher levels of award. Until recently, there were three main investment support programmes: investment incentives into manufacturing industry; a framework programme to support technological centres and strategic services; and a support programme for new job creation in the regions with the highest unemployment levels (closed 2008). However, only support to investments into manufacturing industry remains funded purely from national sources.

In terms of fiscal equalisation, the most important mechanism in relation to economic cohesion is the system of local government financing. Czech municipalities annually receive approximately CZK 150 billion (some €6 billion) in the form of shared taxes distributed according to an equalisation formula. A similar approach is used for the financing of self-governing regions.

### **Policy features**

For regional policy, the main policy frameworks are the Act on Regional Development Support, supported by a number of strategic planning documents. As previously noted, in terms of national regional development policy the most important is the Regional Development Strategy. The strategy does not explicitly discuss the relationship between growth and convergence/cohesion. It aims to encourage both growth/competitiveness and cohesion/solidarity, and also stresses the importance of targeted support in designated regions. Other relevant documents are the Spatial Development Policy of the Czech Republic (2006) and the Strategic Framework of Sustainable Development of the Czech Republic (2010).

The specific objectives of the Regional Development Strategy are:

- development-oriented objective: an increase in economic and environmental potential, competitiveness and social level of regions in the Czech Republic to a level comparable with the developed regions of Europe;
- disparity-oriented objective: focus on stopping the growth of and encouraging the gradual diminishing of excessive regional disparities and the utilisation of territorial specifics;
- instrumental objective: institutional and financial safeguards for the strategy.

All of the above policy instruments are managed and coordinated by the Ministry for Regional Development. There is no specific role played by the regional level of public administration in domestic regional policy. The Ministry, on the basis of defined methodological guidelines, delineates eligible regions and calls for project proposals, which are submitted by individual municipalities located in the assisted regions. The process of project appraisal, as well as financial management, is carried out by the Ministry, more precisely by the department of regional policy which is separated from the department of cohesion policy and from the National Coordination Authority which are in charge of EU Cohesion policy implementation.

### **Importance of Cohesion policy**

Domestic policy approaches are significantly influenced by EU policies in strategic terms (e.g. through the adoption of multi-annual programming and the integration of EU strategies and guidelines into national planning documents). However, questions remain over their real and long-term effect upon the design and implementation of relevant policies in practice. Czech experience of central planning during the communist period means that there is still scepticism among some policy-makers about the added value and practicality of such strategic documents. However, experience and perceptions may vary between levels of government. Local administrations appear slightly more open to such influences, e.g. with many municipalities voluntarily preparing strategic plans.

In terms of resources, Cohesion policy has a major impact on national policy approaches. The relationship of (and relative share of) national to EU co-financing is complex, varying according to policies and policy areas. However, three basic types of relationship can be identified: (1) operational programmes where national funding is dominant, e.g. transport;<sup>10</sup> (2) operational programmes where EU sources dominate, e.g. business support and research, development and innovation; and (3) regional operational programmes where the share between the EU and domestic (in this case regional) money is more or less balanced.

In terms of policy governance, two basic governance models can be identified - one in which EU funding is managed and allocated separately from national financing and the other where the national support programmes which existed before the Czech accession into the EU were directly transformed into the priorities of the respective operational programme.

As has been shown by several evaluation studies, the impact of EU cohesion policy on the design and implementation of Czech national policies as well as on changing institutional culture is clearly discernible. The main institutional and programming innovations can be summarised as: the need to justify intervention and set out strategies; greater awareness of the need to justify projects; the understanding of consultation processes and management of the project cycle; and the introduction and gradual increase of monitoring and evaluation.<sup>11</sup>

### **Impact of the crisis**

The economic crisis has not yet led to major changes in the broad picture of regional disparity. Instead, the regional pattern may become more fragmented/differentiated on a micro-regional/local level. Unemployment data suggests that strong, diversified metropolitan regions have suffered least, while the most affected regions are quite diverse - covering both old industrial regions and peripheral and rural regions.<sup>12</sup> The most pronounced impacts have occurred in areas where the key local employer went bankrupt.<sup>13</sup>

A number of policy adjustments have been made in response to the changing economic conditions. For instance, a support programme for economically weak and structurally 'harmed' regions was re-opened in 2010, albeit with the allocation of only CZK 50 million (€2 million) and targeted at very specific areas. Interventions under the programme are aimed at the development of infrastructure to improve accessibility and the business environment, the reduction of unemployment, and support for tourism development. The direct impact of the crisis on local and regional government financing is also worth noting (as their main source of revenue is shared taxes collected by the state). Revenues dropped significantly during the crisis (from 5-10 per cent according to the type of tax involved). This decline directly impacted upon the revenues of municipalities and regions. They in turn responded by economising across all budget areas and postponed or cancelled new investment projects, except those co-financed by EU Structural Funds.

## 6. DENMARK

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	126.7	58.7	3624.1	43098	222893	121.9

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)						14.4	16.3	15.7	
GDP(PPS) per head (NUTS3)						17.8	19.1	18.6	
Unemployment rates (NUTS2)									
Unemployment rates (NUTS3)									
Employment rates (NUTS2)									
Employment rates (NUTS3)									

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

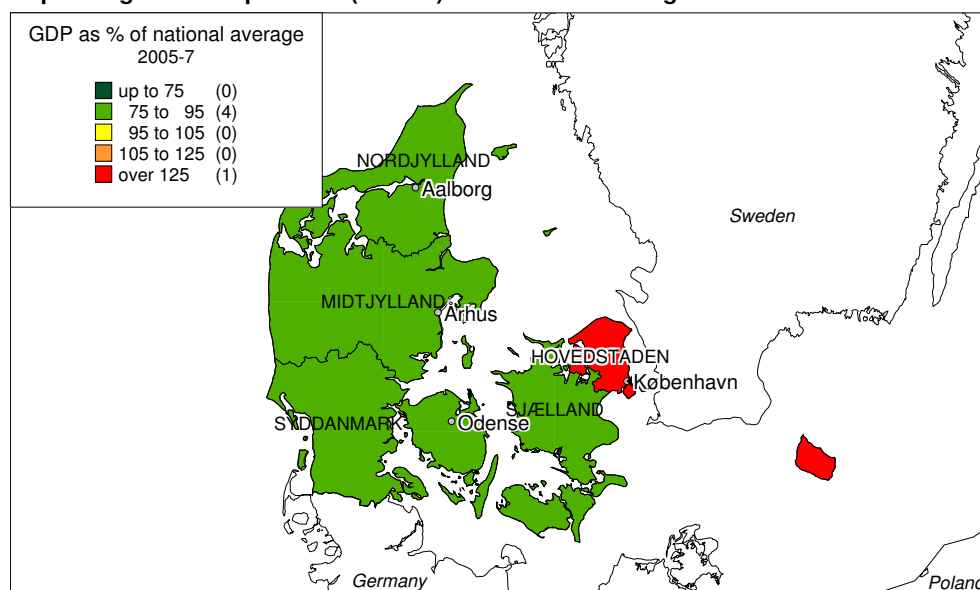
Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Denmark	23300	25100	25300	26300	25700	27200	27800	29400	30200
Min	na	18600	na	na	na	na	21100	22300	22800
Max	na	31300	na	na	na	na	35300	36600	37400
<b>GDP(PPS) per head NUTS 3</b>									
Denmark	23300	25100	25300	26300	25700	27200	27800	29400	30200
Min	na	na	na	na	na	na	20200	21500	22500
Max	na	na	na	na	na	na	41100	42200	42600
<b>Employment rates NUTS 2</b>									
Denmark	62.3	62.5	62.9	62.5	62.0	62.4	62.5	63.4	63.3
Min	na	na	na	na	na	na	na	na	60.7
Max	na	na	na	na	na	na	na	na	65.0
<b>Unemployment rates NUTS 2</b>									
Denmark	5.6	4.6	4.6	4.6	5.4	5.5	4.8	3.9	3.8
Min	na	na	na	na	na	na	na	na	3.3
Max	na	na	na	na	na	na	na	na	4.3
<b>Unemployment rates NUTS 3</b>									
Denmark	5.6	4.6	4.6	4.6	5.4	5.5	4.8	3.9	3.8
Min	na	na	na	na	na	na	na	na	2.6
Max	na	na	na	na	na	na	na	na	5.8
<b>Disposable household income (PPS) per head NUTS 2</b>									
Denmark	10412.1	10788.5	10989.7	11441.2	11186.0	11745.9	12036.6	12757.1	13096.4
Min	na	10427.5	na	na	na	na	11707.4	12455.8	12857.9
Max	na	11444.9	na	na	na	na	12549.4	13265.4	13517.6

Source: Eurostat

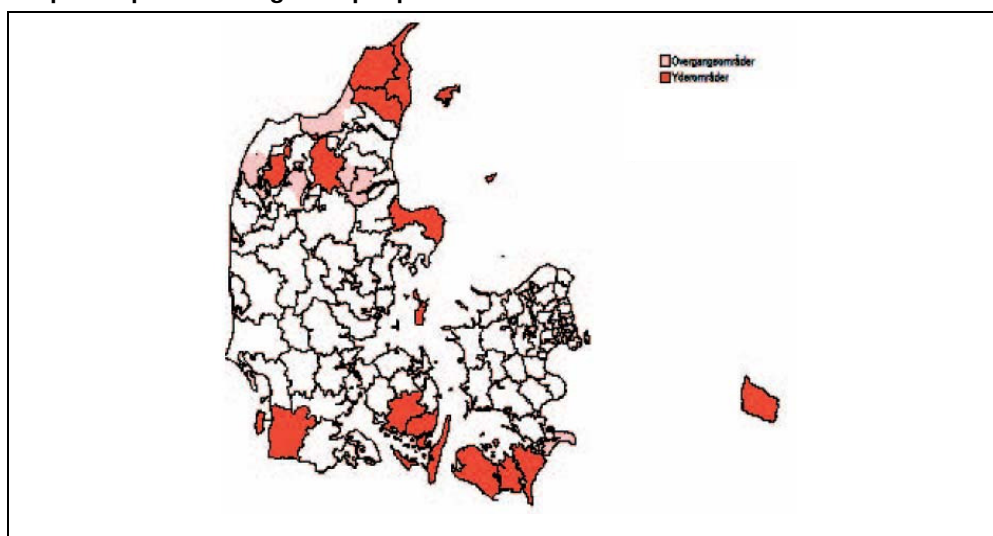


**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Map 2: Map of the designated peripheral areas 2007-13**



Source: Indenrigs- og Sundhedsministeriet (2007), Regionalpolitisk redegørelse 2007 - Analyser og baggrund. København, Indenrigs- og Sundhedsministeriet.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.002	0.001	0.003	0.002	0.000	0.000
EfD	1.414	1.614	1.499	1.590	1.430	1.405
Social protection	30.0	29.8	29.4	28.5	28.1	
Cohesion policy	0.056	0.093	0.059	0.057	0.057	0.042

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
				510	103	613

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
543.863	0.040	14.5	54.6	0.0205	4.8

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• Business Development Act expenditure via the RGFs	€280mn (2008)	0.1202
• Of which:		
• <i>EU contribution</i>	€84mn (2008)	0.0360
• National government contribution	€37mn (2008)	0.0159
• Regional and local government	€66mn (2008)	0.0283
• <i>Others (knowledge institutions, private firms, others)</i>	€93mn (2008)	0.0399

**Source:** National expert's report.

## DENMARK

### Overview

Regional policy in Denmark is governed by the 2005 Business Development Act.<sup>14</sup> This gave the five new regions, established in 2007 as part of wide-ranging local government reform, statutory responsibility for regional economic development. The Act operates through statutory partnership bodies in each region - so-called Regional Growth Fora (*Regionale Vækstfora*, RGFs). The six RGFs<sup>15</sup> consist of local and regional government representatives plus members from private sector organisations and knowledge institutions. Their main roles under the Act are:<sup>16</sup> to keep track of developments in their area; and to initiate new activities through funding from local and central government; they are, however, statutorily prohibited from implementing programmes and projects directly. Rather they must work with local, regional and national partners. Subsequent legislation<sup>17</sup> placed the RGFs at the centre of Structural Funds administration; this increased both the resources at their disposal and the scope for regional development coordination between different tiers of government and between domestic and EU funding. The Business Development Act defines six policy areas for the RGFs, four growth-oriented (innovation, ICT, entrepreneurship, human resources) and two periphery-related (tourism and the peripheral areas). It stipulates that the RGFs must have special regard for the development of peripheral areas (*yderområder*). These have since been defined (via an inter-departmental exercise) as localities which meet two criteria: that work- and business-related income is less than 90 percent of the national average; and that population growth is less than 50 percent of the national average. They cover around 10 percent of the national population (see Map 2 above).

### Objectives

The purpose of the 2005 Business Development Act is “*to strengthen the development of Danish businesses by promoting competitiveness and globalisation through ... [the] promotion of economic development and employment in the regions*” (para 1). More generally, the objective of regional policy (repeatedly stated by governments since 2001) is “*to ensure that Danish citizens enjoy good and equal conditions no matter in which part of the country they live*”.<sup>18</sup> The emphasis is thus on social and territorial cohesion, but the means to achieve this - in addition to budgetary mechanisms which transfer tax revenues to less well-off areas - focus primarily on economic development; the 2005 Act plays a central role in providing the general framework for regional development activities.

### Regional problem

The relatively low-key nature of regional policy in Denmark reflects the limited differences in wealth between the capital city area and the rest of the country. No NUTS III region deviated by more than 13 percent from the national average in terms of productivity per employee in 2006<sup>19</sup> while unemployment differentials are low and falling. The government view of the regional problem remains broadly as in the 2003 White Paper.<sup>20</sup> It is seen as important that each region maximises its contribution to national growth, but less well-off peripheral areas in the North and the South of the country are acknowledged to warrant

special attention. Moreover, sub-regional differences are recognised and peripheral islands are seen as in need of specific measures. They are part of the designated peripheral areas and benefit also from special provisions.

### **Policy response**

The all-region approach of the Business Development Act, with its primary focus on the promotion of competitiveness and globalisation, means that Danish regional policy can be characterised as a “broad” regional policy, even though the special treatment of the peripheral areas means that aspects of policy are more narrowly targeted. There is, however, no aid regime restricted to designated aid areas (such nationally-funded regional aid was abolished in 1991), although some aid is available to two large, four medium-sized and 27 small non-bridge islands under the Structural Funds.<sup>21</sup> Expenditure on regional development under the Business Development Act (via the RGFs) totalled €280 million in 2008. Of this, some 30 percent (€84 million) was from the Structural Funds, just over 13 percent (€37 million) from the national government, just under one-quarter (€66 million) from regional and local government and one-third (€93 million) from other sources (including the private sector and knowledge institutions).

The Business Development Act aims to strengthen framework conditions for business development at the regional level through ‘soft measures’ such as advisory services, networking, knowledge brokering, cluster development and training. It focuses particularly on the mobilisation of regional growth potential via the RGFs, allowing them to stimulate developments in six policy areas - innovation, ICT, entrepreneurship, human resources, tourism and the peripheral areas. Interestingly, there is considerable variety between the RGFs in terms of the initiatives introduced and the prominence of particular measures. This confirms the rationale for the *regional* delivery of policy, with assisted projects reflecting region-specific challenges and priorities. Although regional policy under the Business Development Act covers all regions and is operated through regional-level partnership bodies, aspects of policy favour the designated peripheral areas (see Map 2): first, two of the six RGF policy areas directly target tourism and peripheral areas; second, RGF funding mechanisms favour peripheral areas (funding criteria oriented towards ‘special needs’ account for 60 percent of the allocation while the remaining 40 percent is allocated per capita); and, third, one of the funding sources used to support regional projects (namely, the Structural Funds) has allocated 35 percent of its overall funding to the peripheral areas; as already mentioned, such areas hold just 10 percent of the national population.

The Business Development Act has improved the links between regional development initiatives and national policies (including sectoral policies) in two ways. On the one hand, it ranges across virtually all the policy areas covered by the Danish Growth Council; this helps to ensure that regional policy is integrated into the broader framework for economic development and globalisation. On the other, annual partnership agreements between central government and each of the six RGFs help to secure compatibility between the globalisation strategy of central government and economic development strategies in the regions. In addition, at a practical level, partnership agreements help to create a degree of commitment to regional development activities by departments of central government other than the Ministry of Economic and Business Affairs. More generally, sectoral policies

in Denmark rarely have specific cohesion dimensions though, by their nature, tourism, fisheries and rural policies have obvious implications for the designated peripheral areas. Tourism in particular has been drawn closer to regional policy by its inclusion within the six RGF policy areas and, indeed, six regional tourism boards have recently been established, strengthening the regional dimension to tourism policy.

Finally, there is no fiscal equalisation mechanism in Denmark with an explicit economic cohesion objective. There is, though, an extensive system of redistribution of tax revenues to “compensate for differences in tax base and expenditure requirements for local authorities”.<sup>22</sup> The redistribution of funds is based on a complex system of indicators, including taxable income, socio-demographic profile, previous budgetary difficulties, and geography (metropolitan, peripheral).<sup>23</sup> According to OECD, the scale of such fiscal equalisation in 2004 amounted 2.8 per cent of GDP or 5.1 per cent of government expenditure.<sup>24</sup>

### **Policy features**

The national globalisation strategy provides an overarching framework within which the regional development strategies of the RGF sit. RGF regional strategies are aligned with the national strategy via partnership agreements. While the overall focus is on growth and competitiveness, the position of the peripheral areas is directly addressed. As already mentioned, they are included within two of the six policy areas falling within the RGF remit, reflecting political concerns about their persistent underperformance (many with significant coastal tourism sectors) and their ongoing population decline and limited economic development.

The 2003 regional policy White Paper marked an important strategic turning point in that it defined the aim of central government with regard to regional development as maintaining Denmark’s “*leading position within Europe as one of the countries with the smallest differences between regions*” through “*specific initiatives ... that target peripheral areas so that they are not cut off from the growth occurring in other parts of the country*”.<sup>25</sup> In other words, following a period (from the early 1990s) when the broad thrust of policy had been to support economic development and competitiveness in all parts of the country in order to maximise their contribution to national economic growth, micro-zoning appeared once more on the policy agenda.

Under the Business Development Act, policy is implemented at the regional level via the RGFs. The Act instituted a dual-key control system whereby the elected council and the RGF can veto each other’s initiatives. This enhanced the status of the partnership body, as did the fact that the RGFs were subsequently given the central role in Structural Funds administration; this increased the resources at their disposal and the scope for regional development coordination between different tiers of government. In addition, although RGF administrative support is integrated within the new regional administrations, reporting is to the RGF rather than the regional councils.

The new set-up has increased regional policy coordination: *horizontally*, with the RGF recommending or deciding project support using EU funding as one source of finance among

others; *vertically between the regional and local levels*, through the role of local authorities as funders and, to some extent, as implementers of regional development measures; and *vertically between the national and regional levels*, through legislative regulation and the introduction of partnership agreements between central government and each RGF. As mentioned earlier, these aim to secure compatibility between the globalisation strategy of central government and regional development strategies.

### **Importance of Cohesion policy**

The strategic focus of Danish regional policy on furthering competitiveness in all regions has been visible for many years now; indeed, it stretches back to the termination of central government investment grants in 1991.<sup>26</sup> While there are obvious links between current national and EU regional development strategies, their strong Lisbon-orientation does not reflect a process of ‘Lisbonisation’ *per se* (i.e. driven from the EU level) but, rather, ongoing national policy strategies and priorities (most obviously, the national globalisation strategy).

In terms of funding, EU Cohesion policy has historically played an important role in national developments by effectively substituting for the traditional top-down national policy programmes which ended in the 1990s. Moreover, just under 30 percent of RGF funding currently comes from EU sources.<sup>27</sup> On the other hand, regional strategies and funding priorities are decided in a regional context by the RGFs, as illustrated by the already-mentioned wide variation in the types of initiative progressed in each region. This suggests that EU funds support regional and national priorities rather than the other way around.

Regarding governance, the design, management, implementation and evaluation of both the (regionalised) domestic policies for regional development and EU regional development policies centre on the six RGFs and their administrators located within the regional authorities. Since substantive decisions are taken at the regional level, they are made by the same bodies no matter where the funding comes from. There are, of course, some minor differences (on nationally-funded projects the RGFs need the approval of the elected regional councils, on EU projects the National Agency for Enterprise and Construction (NAEC) conducts a legality check to ensure compliance with state-aid rules), but overall the RGFs are the central bodies for both national and European regional policy. While overall strategic coordination is provided by the six priority policy areas in the 2005 Business Development Act (which also informs NAEC’s development of Structural Funds programmes), practical coordination between the two policy streams is ensured by the pivotal implementation role of the RGFs.

With respect to overall Cohesion policy impact, it can be argued that, at least to some extent, the inspiration for the all-region, RGF-driven regional policy stems from experience with the programming and partnership principles of the Structural Funds;<sup>28</sup> this probably also explains the increasing emphasis on evaluation.

## Impact of the crisis

The impact of the economic crisis on cohesion objectives and initiatives has been limited. Although reference is made to the crisis in the government's most recent annual regional economic development report,<sup>29</sup> this simply reiterates the importance of the RGFs, some of which have launched new measures in response to the economic downturn (e.g. financial engineering). A plausible reason for the general lack of impact could be that, although unemployment has grown and done so unevenly across the regions, it remains at historically low levels. Moreover, patterns of inter-regional inequality are broadly unchanged.

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## ENDNOTES

<sup>1</sup> Additional, regional support measures are detailed in accompanying legislation, on for example SME support in lagging regions (Act on Small and Medium Enterprises Support No. 47/2002 Sb.).

<sup>2</sup> The Act on Regional Development Support (No. 248/2000 Sb.)

<sup>3</sup> Ministry for Regional Development, Institute for Spatial Development (2008, approved by the Government in 2009): Spatial Development Policy of the Czech Republic 2008. Brno, 94 p. (in English available at <http://www.uur.cz/default.asp?ID=3464>)

<sup>4</sup> Governmental Committee for sustainable development (2010): Strategic Framework of Sustainable Development of the Czech Republic. Prague, 82 p. (in Czech, available at [http://www.mzp.cz/C1257458002F0DC7/cz/sur/\\$FILE/OPZP-SRUR\\_CR-20100111.pdf](http://www.mzp.cz/C1257458002F0DC7/cz/sur/$FILE/OPZP-SRUR_CR-20100111.pdf))

<sup>5</sup> In fact, the Strategy of Regional Development for 2007-2013 is, to a large extent, only a "formal" strategic document and serves only as background argumentation for explicit national regional policy.

<sup>6</sup> Blažek J, Csank P (2007): Nová fáze regionálního rozvoje? (New phase of regional development?) Sociologický časopis Vol. 43, No. 5, pp. 945-965. (in Czech)

<sup>7</sup> Blažek J, Netrdová P (2009): Are development axes emerging in NMSs? The case of the Czech Republic, Geografie, Vol. 114, No. 4, pp. 245-262. (in Czech); Ouředníček M, Temelová J, Pospíšilová L (eds.) (2010): Atlas sociálně prostorové diferenciace České republiky. (Atlas of socio-spatial differentiation of the Czech Republic). Karolinum, Praha. (in Czech and English)(in print)

<sup>8</sup> The figure for 2007 has been calculated by the National Experts on the basis of official data provided by the Ministry of Regional Development and the Ministry of Finance of the Czech Republic.

<sup>9</sup> Ministry of Transport of the Czech Republic (2005) Transport policy of the Czech Republic 2005-2013. Prague, 63 p. (in Czech)

<sup>10</sup> Blažek J, Macešková M (2009): National Assessment Report - Czech Republic. Ex post Evaluation of Cohesion Policy Programme 2000-06 Co-financed by ERDF (Working Package 11). Final report. European Policies Research Centre, University of Strathclyde, Glasgow and Metis, Vienna, 80 p.

<sup>11</sup> Blažek J, Macešková M (2010). Regional Analysis of Public Capital Expenditure: To Which Regions is Public Capital Expenditure Channelled - to 'Rich' or to 'Poor' Ones?, Regional Studies, vol. 44, no. 6, pp. 679-696.

<sup>12</sup> Blažek J (2010): The regional impacts of the global financial and economic crisis in the Czech Republic. In Gorzelak, Chor-Ching Gohet (eds): Financial Crisis in Central and Eastern Europe: From Similarity to Diversity, World Bank, EUROREG, Wydawnictwo Naukowe scholár, Warszawa, pp. 50-64.

<sup>13</sup> Pileček J, Červený M (2010): Hospodářská krize a regionální disparity - příklad okresů České republiky. (The economic crisis and regional disparities - an example of the districts of the Czech Republic). Obec a finance, Vol. 14, No. 1, pp. 32-34.

## ENDNOTES

<sup>14</sup> *Lov om erhvervsfremme*, L47 of 16 June 2005. The fact that regional spatial equality is not mentioned within the Danish constitution is not related to the priority attached to it; rather it reflects the nature of the constitution, with its focus on governance arrangements rather than social rights.

<sup>15</sup> One for each region but two for the capital city region - one for the metropolitan area, the other for the peripheral island of Bornholm.

<sup>16</sup> L47 of 16 June 2005. In contrast, previous legislation had explicitly constrained sub-national economic development activities, barring sub-national authorities from awarding financial aid to firms.

<sup>17</sup> L1599 of 20 December 2006; Økonomi- og Erhvervsministeriet (2007). *Bekendtgørelse om henlæggelse af beføjelser til Erhvervs- og Byggestyrelsen efter lov om administration af tilskud fra Den Europæiske Regionalfond og Den Europæiske Socialfond*, 17.1.07. København, Økonomi- og Erhvervsministeriet.

<sup>18</sup> "Regeringen arbejder for, at den danske befolkning skal sikres gode og ligelige vilkår, uanset hvor i landet man bor." Indenrigs- og Socialministeriet (2009), Regionalpolitisk redegørelse 2009 - Regeringens redegørelse til folkettinget. København, Indenrigs- og Socialministeriet.

<sup>19</sup> Økonomi- og Erhvervsministeriet. (2008). *Baggrundsrapport til regionalpolitisk vækstredgørelse*. København: Økonomi- og Erhvervsministeriet, p 14.

<sup>20</sup> Regeringen (2003) *Den regionale vækststrategi*, København: Økonomi- og erhvervsministeriet; English version [www.oem.dk/publication/growth/strategy.pdf](http://www.oem.dk/publication/growth/strategy.pdf).

<sup>21</sup> Special support conditions apply to two large peripheral islands (Lolland, Bornholm), four medium-sized peripheral islands (Læsø, Ærø, Langeland, Samsø), and 27 small bridge-less islands.

<sup>22</sup> Lov om kommunal udligning og generelle tilskud til kommuner, Lov nr. 499 af 7. juni 2006, §1 ("udligning af forskelle mellem kommunernes økonomiske forudsætninger som følge af forskelle i beskatningsgrundlag og udgiftsbehov").

<sup>23</sup> Velfærdsministeriet. (2009). *Kommunal udligning og generelle tilskud 2009*. København: Velfærdsministeriet.

<sup>24</sup> Blöchliger, H. and Charbit, C. (2008) 'Fiscal Equalisation', *OECD Economic Studies*, 44, 2008/1.

<sup>25</sup> Regeringen (2003) *Den regionale vækststrategi*, København: Regeringen.

<sup>26</sup> Halkier, H. (2001) 'Regional Policy in Transition - A Multi-level Governance Perspective on the Case of Denmark', *European Planning Studies* 9 (3), 323-38.

<sup>27</sup> Danske Regioner (2009), *Regional erhvervsudvikling, De regionale vækstforas investeringer 2008*, København, p.10.

<sup>28</sup> Halkier, H. (2008) 'Regional Development Policies and Structural Reform in Denmark. From Policy Segmentation towards Strategic Synergy?' in Bukve, O., Halkier, H. and Souza, P. d. *Towards New Nordic Regionalism. Politics, Administration and Regional Development*, Aalborg, Aalborg University Press, 201-25.

<sup>29</sup> Økonomi- og Erhvervsministeriet (2009), *Regionalpolitisk vækstredgørelse af 2.4.09*. København, Økonomi- og Erhvervsministeriet.

## 7. ESTONIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
1.342	30.9	14.5	120.6	45288	13730	67.1

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	35.1	36.9	37.9	38.4	40.1	41.8	39.8	44.7	



<b>Unemployment rates (NUTS2)</b>	na	na	na	na	na	na	na	na	Na
<b>Unemployment rates (NUTS3)</b>	35.9	35.9	33.1	37.1	27.7	32.8	33.8	37.9	41.2
<b>Employment rates (NUTS2)</b>	na	na	na	na	na	na	na	na	Na
<b>Employment rates (NUTS3)</b>	6.9	7.1	6.9	8.2	7.1	5.6	7.7	7.4	

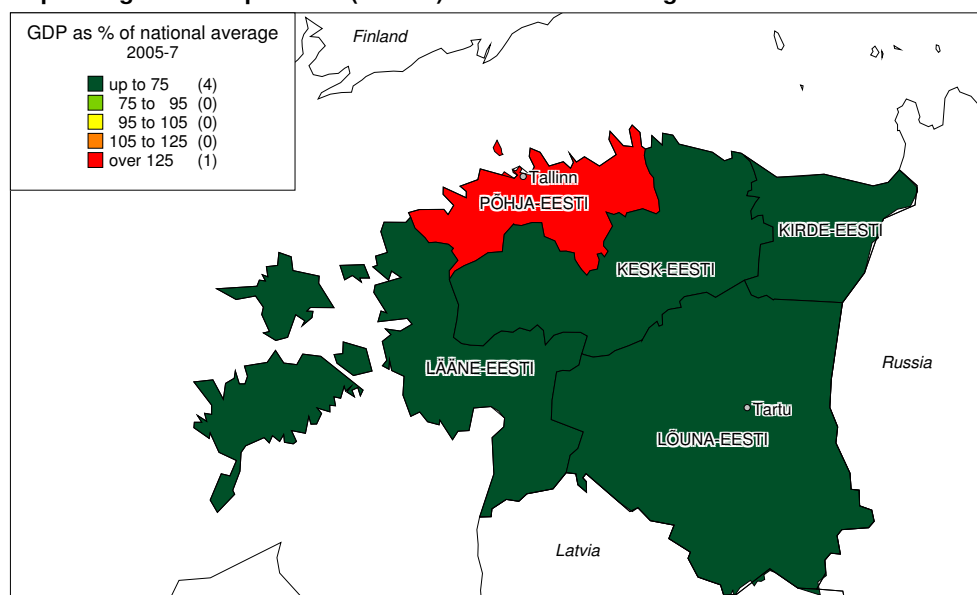
**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

**Source:** Eurostat

**Figure 3: Regional disparities in GDP, unemployment, employment and household income**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
<b>Estonia</b>	7600	8600	9200	10200	11300	12400	13800	15400	17100
<b>Min</b>	na	na	na	na	na	na	na	na	Na
<b>Max</b>	na	na	na	na	na	na	na	na	Na
<b>GDP(PPS) per head NUTS 3</b>									
<b>Estonia</b>	7600	8600	9200	10200	11300	12400	13800	15400	17100
<b>Min</b>	5200	5800	6000	6500	6900	7500	8700	9100	10300
<b>Max</b>	11000	12700	13600	15400	17400	19200	20900	24000	26300
<b>Employment rates NUTS 2</b>									
<b>Estonia</b>	51.8	50.7	51.1	52.2	52.8	53.0	53.9	56.8	57.6
<b>Min</b>	na	na	na	na	na	na	na	na	Na
<b>Max</b>	na	na	na	na	na	na	na	na	Na
<b>Unemployment rates NUTS 2</b>									
<b>Estonia</b>	11.6	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7
<b>Min</b>	na	na	na	na	na	na	na	na	Na
<b>Max</b>	na	na	na	na	na	na	na	na	Na
<b>Unemployment rates NUTS 3</b>									
<b>Estonia</b>	11.6	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7
<b>Min</b>	8.6	10.5	9.8	7.7	8.4	7.4	5.7	4.0	3.4
<b>Max</b>	21.7	25.7	22.6	19.6	17.4	17.9	14.6	11.4	9.7
<b>Disposable household income (PPS) per head NUTS 2</b>									
<b>Estonia</b>	3595.6	4052.8	4297.5	4817.7	5091.1	5447.0	6101.3	6938.2	7857.2
<b>Min</b>	na	na	na	na	na	na	na	na	Na
<b>Max</b>	na	na	na	na	na	na	na	na	Na

**Source:** Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

Please note: There is no regional aid map available from national sources. However, maximum aid rates for large firms range from 40 percent to 50 percent.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.014	0.027	0.022	0.015	0.014	0.005
EfD	3.416	3.381	3.449	4.575	5.002	5.421
Social protection	12.4	12.8	12.4	12.1	12.3	
Cohesion policy	0.000	0.388	0.644	1.077	1.387	1.474

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
1152	2252				52	3456

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
3050.431	4.900	320.1	87.2	0.1948	72.5

Source: Own calculations from Com decisions on commitment appropriations; Info regio; Eurostat.

**Figure 7: Key areas of national spend**

Narrow and broad regional policies:		% of GDP
• Total budget for regional grants (2009)	€131.9mn	0.9607
• Of which: nationally-funded internal grants	€7.9mn	0.0575
• European Union grants	€124mn	0.9031

Source: National expert's report.

## ESTONIA

### Overview

Regional development policy in Estonia is based on the 1994 *Guidelines for Regional Policy*. The Regional Development Strategy approved in 1999 elaborated the main guidelines for regional policy. This was subsequently updated in 2005, with the new Regional Development Strategy for 2005-2015. The sustainable development of all regions and achieving a less concentrated economic and population structure are the main goals of regional policy. Domestic regional policy is administered through internal grants but these are co-financed to a very large degree through EU Cohesion policy. Furthermore, there is a limited fiscal equalisation mechanism between municipalities. Finally, all Estonian ministries must analyse their sectoral policies for regional impacts and coordinate these with the Minister for Regional Affairs.

### Objectives

The 1994 *Guidelines for Regional Policy* are the main framework for Estonian regional development policy. Since then, Estonia has gone through a variety of regional programmes. The most recent strategic document, which constitutes the framework for current regional policy, is the Estonian Regional Development Strategy 2005-2015 (*Eesti Regionaalarengu Strateegia 2005-2015*). This describes the trends, objectives and indicators of regional policy and regional development for the years 2005-2015.

The strategy defines the general objective of regional policy as ensuring the sustainable development of all regions, based on their individual territorial capital. A secondary objective is to halt the concentration of population and economic activities in the capital region. These aims are divided into three subordinate objectives, namely: 1) better meeting the basic needs of people everywhere in Estonia, 2) achieving lasting competitiveness in the different regions, and 3) enhancing the ties between Estonian regions and cross-border regions as well as the rest of the Europe.

### Regional problem

On the one hand, Estonia's regional problem is related to specific features of underdeveloped regions. These include very sparsely-populated areas (creating challenges for public service provision and pressures to move to bigger cities), border regions and island regions. On the other hand, there are large differentials in regional economic development. In particular, there is a sizeable difference in the standard of living and competitiveness between the capital, Tallinn, and other regions in Estonia. Considerable population movements towards Tallinn and its surrounding areas (Harju County) have been observed. To a lesser extent, the same pattern can be observed for Estonia's second-largest city, Tartu. In addition to having a disproportionate share of the population, Harju County also produces a disproportionate share of Estonia's GDP (about 60 percent). In general, economic activity is steadily concentrating in the two largest city areas. Several regions, especially in north-eastern and in south-eastern Estonia, have not developed at the same pace as the larger growth regions in terms of GDP, employment, education and income. In

terms of unemployment, Polva County, Jogevea County and Ida-Viru County, all in the eastern part of the country, are among the most problematic areas. Also of note is the very large number of municipalities in Estonia, most with very few inhabitants and low-level resourcing, creating problems in many parts of the country for the delivery of public services.

### Policy response

Domestic regional policy is largely organised through internal grants. In terms of narrow regional policies, only three internal grants for regional development are targeted at specific regions. These are the programme for the development of Setomaa, the programme for Peipsiveere and the regional programme for Kihnu Island (see Figure 8).

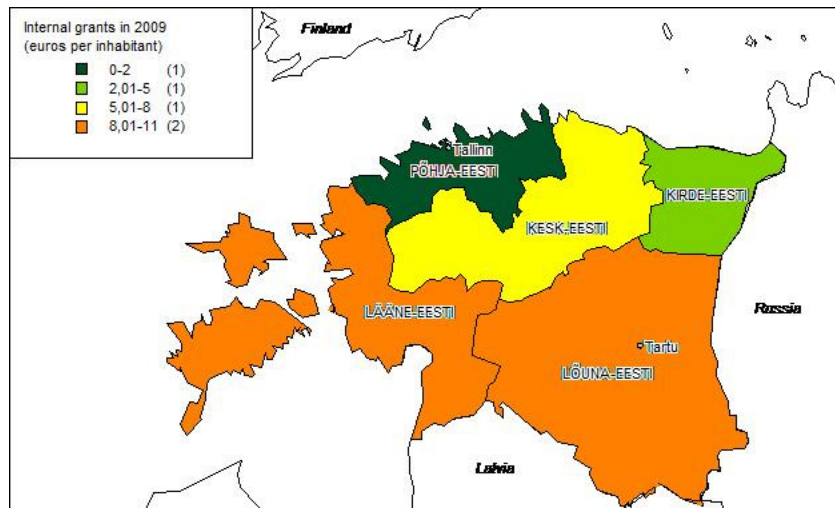
**Figure 8: Internal (nationally-funded) grants in 2009**

Internal grant	€
Programme for local initiatives	1,121,459
Programme for support of regional investments (financed from the tax on gambling)	2,322,461
Programme for small projects to increase the competitiveness of regions	498,180
Programme for planning regional development	414,126
Programme for support of county development activities	287,603
Programme for development of Setomaa	329,303
Grant to compensate for tax on the Russian Federation visa	29,491
Water programme for sparsely-populated areas	985,287
Electricity programme for sparsely-populated areas	890,888
Programme for Peipsiveere	294,634
Regional programme for Kihnu Island	263,086
Grants for financing county development centres	419,261
<b>TOTAL</b>	<b>7,855,799</b>

**Source:** Estonian state budget

Following accession to the European Union, all other internal grants are now available for all regions (see Map 2 for a regional distribution of domestic funding in 2009). These are: the programme for local initiatives, the programme for support of regional investments, the programme for small projects to increase the competitiveness of regions, the programme for planning regional development, the programme for support of county development activities, the grant to compensate for tax on the Russian Federation visa, the water programme for sparsely-populated areas, and the electricity programme for sparsely-populated areas.<sup>1</sup> The main aims of these programmes are to develop the local living environment by improving the availability and the quality of public services and to enhance the development potential of regions for creating better conditions for entrepreneurship. Regional policy is financed from the state budget. In addition to internal resources, funding from the European Union is also widely used for regional development. In 2009, the total budget for regional grants reached almost €131.9 million, of which internal grants constituted €7.9 million (see Figure 8), while the volume of European Union grants was nearly €124 million.<sup>2</sup>

### Map 2: Regional distribution of internal grants in 2009



Source: National expert elaboration from domestic data.

In addition to internal grants, there are attempts to coordinate regional policy with those sectoral policies that are connected to regional development, such as infrastructure provision, financial aid to entrepreneurship and facility development. One of the responsibilities of the national government, specifically the Minister for Regional Affairs, is to ensure cooperation between relevant ministries, counties and local governments to improve the combined impact of various sectoral policies in supporting the development of the regions.<sup>3</sup>

Finally, there are fiscal equalisation mechanisms with a limited economic cohesion objective. Local authorities have their own independent budget, with subsidies from the central state budget as the second largest source of income for local government. These subsidies are aimed at financial equalisation, in that they support smaller and poorer municipalities in particular. The deficit between revenues and expenditures is compensated for by an equalisation grant.<sup>4</sup>

### Policy features

The implementation of regional policy involves partners from various levels. The Regional Development Strategy states that the initiative for development should originate primarily from the local and regional level and in some cases also from the national level. Regional and local authorities assist in applying for development projects and are involved in their coordination. Depending on the programme, local governments, households, non-profit organisations and others can apply for projects financed from internal grants. Local authorities do not have their own budget from internal grants but they can carry out development projects, provided that they have applied for these projects and that the projects have been approved by either the Ministry of Interior, Enterprise Estonia or a specific commission put together for a particular programme.

Regional policy is devised by the Ministry of the Interior. The Minister for Regional Affairs (without portfolio) is based in the Ministry of the Interior and is directly responsible for implementing regional policy and for the co-ordination of government activities affecting

regional development. All ministries are required to analyse the regional effects of their actions and to inform the Minister for Regional Affairs about decisions and actions in sectoral policies that have a significant regional impact.

Evaluations of Estonian regional policy prior to EU accession showed that the limited resources available, as well as their weak coordination, impeded any significant impact on regional development. However, the implementation of the 1999 Regional Development Strategy partially compensated for the socio-economic backwardness of particular target areas. It also signalled to developers that the state would support their initiatives, while creating good preconditions for the better implementation of EU support. Limited links between particular development projects and local and regional development strategies have been identified as a weakness of policy. In addition, the impact of support on job creation has been limited because the private sector has been only weakly involved in the planning and implementation of development projects.

### **Importance of Cohesion policy**

For the 2007-13 period, Estonia has been allocated some €3.4 billion in total from the ERDF, the ESF and the Cohesion Fund. The entire country is eligible to receive investment support under the Convergence objective. The expected impact of Cohesion Policy is projected to be significant in Estonia's development with EU grants making up nearly 95 percent of the total budget for regional grants in 2009 (see Figure 7). The impact of Cohesion policy on Estonian regional development policy also concerns its strategic focus. The 2005 Regional Development Strategy was specifically designed to update the previous strategy, recognising that the parameters of national regional policy needed to be reviewed in the light of EU Cohesion policy. The Ministry of Interior, as the overall coordinating body, aims to design internal programmes in a way so that they support and complement Cohesion policy.

The main strategic focus for the 2007-13 period is on: supporting an educated and active population; increasing R&D capabilities and the innovative spirit and productivity of enterprises; ensuring better transport connections; reducing environmental challenges, and ensuring integrated and balanced regional development. Also of importance, there was a specific focus on improving administrative capacity. EU funds also support activities in the area of social cohesion. The objectives in this field - lowering the poverty risk rate from 19 percent to 15 percent, and lowering the differences in employment rates between the counties - are of major importance to Estonia. Two related objectives include ensuring that the gap in GDP per head between regions widens no further and reducing internal regional disparities. It is recognised that this is challenging given the nature of the regional problem and, in particular, the impact of sparse population in backward areas and the associated population flows to the larger cities.

European and domestic regional policy are managed and implemented in a closely integrated manner. The Ministry of the Interior is in charge of coordinating regional grants, both internally and EU-funded. The Ministry of Finance, as the Managing Authority for the Operational Programmes, is in charge of allocating the resources. Generally, programmes are implemented through support structures already in place for domestic policies. Funding

is disbursed through a centralised system with the appraisal and selection of projects being undertaken through domestic decision-making channels. Within public institutions, separate administrative units are usually in place in order to distinguish everyday state administration from the administration of the Structural Funds.

### **Impact of the crisis**

The economic crisis has affected financing in most policy fields in Estonia, including regional policy. The recession required some cutbacks in the budget for 2009, and fewer financial resources were available for regional development in the 2010 budget. Due notably to the considerable decrease in GDP, Lithuania is one of five countries receiving a share of additional advances of €775 million (4 percent from ESF and 2 percent from the Cohesion Fund) under the simplification measures decided by the European Commission in June 2010.

The crisis has also had an impact on economic, social and territorial cohesion. Thus, there has been a rapid increase of unemployment,<sup>5</sup> with unemployment rates highest in the weak regions of south-eastern and north-eastern Estonia.<sup>6</sup> For example, at the end of 2009, the unemployment rate exceeded 15 percent in the Ida-Viru, Valga and Võru counties, while average unemployment in Estonia was 12.2 percent. At the same time, it appears that the crisis has somewhat decreased the differences between Estonian municipalities in terms of unemployment rates.

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### **ENDNOTES**

<sup>1</sup> Grants for financing county development centres are not listed as a special internal grant but are still included in Estonia's internal grants budget. See <http://www.siseministeerium.ee/2009-aasta-regionaaltoetuste-kokkuvote/> and <http://www.siseministeerium.ee/14979/>.

<sup>2</sup> Ministry of Interior, <http://www.siseministeerium.ee/2009-aasta-regionaaltoetuste-kokkuvote/>.

<sup>3</sup> *Eesti Regionaalarengu Strateegia 2005-2015*.

<sup>4</sup> Local government in Estonia. Siseministeerium, 2005.

<sup>5</sup> The unemployment has increased 4-6 times (depending on the county) in less than two years.

<sup>6</sup> It is important to note that, in these regions also, long-term unemployment is a serious problem.

## 8. FINLAND

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	17.4	2.0	216.8	338436	170971	116.8

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	17.8	17.6	17.5	16.8	15.4	15.7	15.4	15.5	
GDP(PPS) per head (NUTS3)	21.7	21.7	22.1	20.7	19.2	19.0	19.3	19.6	
Unemployment rates (NUTS2)	23.8	25.1	29.4	28.1	22.0	21.3	21.9	23.9	25.8
Unemployment rates (NUTS3)	32.4	33.1	36.2	35.8	30.4	28.5	31.6	32.3	32.3
Employment rates (NUTS2)	6.7	6.8	7.0	6.7	6.1	5.5	5.5	5.4	5.6
Employment rates (NUTS3)	8.6	8.8	8.8	8.5	7.6	7.4	7.4	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

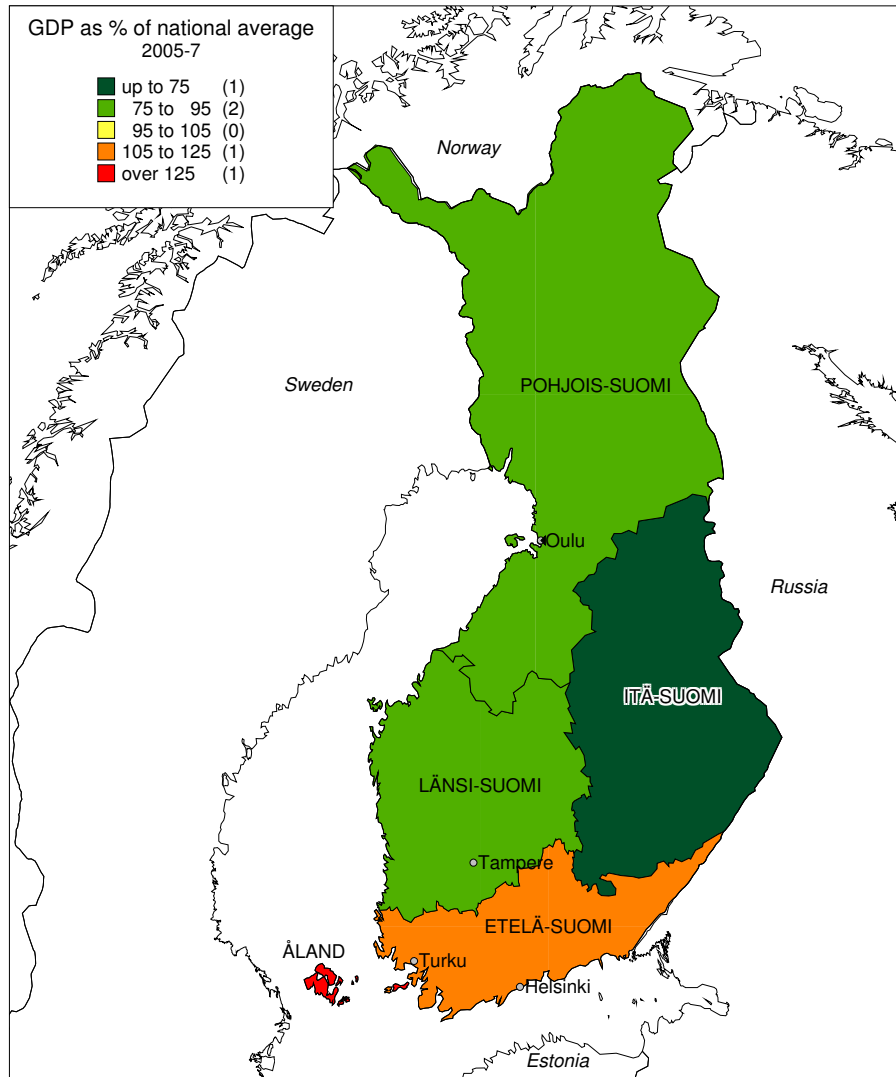
Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Finland	20500	22300	22900	23600	23400	25200	25700	27200	29400
Min	14900	16000	16500	17000	17300	18500	19100	20200	22100
Max	28100	28000	31200	31300	30800	32600	33000	34700	35700
<b>GDP(PPS) per head NUTS 3</b>									
Finland	20500	22300	22900	23600	23400	25200	25700	27200	29400
Min	13900	14400	15600	16100	16100	17400	17100	19000	20900
Max	28900	31800	32600	33000	32000	34300	35100	37500	40300
<b>Employment rates NUTS 2</b>									
Finland	55.8	55.4	55.9	55.8	55.4	55.2	55.7	56.3	57.0
Min	48.2	47.5	47.2	47.5	47.7	47.3	48.2	48.9	48.4
Max	62.0	65.6	64.0	62.9	59.4	59.0	59.3	60.2	60.6
<b>Unemployment rates NUTS 2</b>									
Finland	10.2	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9
Min	8.1	7.7	7.0	7.1	7.5	7.3	6.9	6.3	5.7
Max	14.1	14.1	14.0	13.4	12.3	12.5	11.7	11.3	11.0
<b>Unemployment rates NUTS 3</b>									
Finland	10.2	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Finland	9363.4	9802.5	10118.4	10673.8	10994.7	11781.0	11964.0	12479.8	13453.5
Min	8452.7	8781.2	9014.1	9526.4	9848.2	10541.8	10818.4	11447.0	12306.7
Max	11899.9	12636.5	12928.9	13780.2	14140.1	14810.7	14187.3	13538.9	14888.3

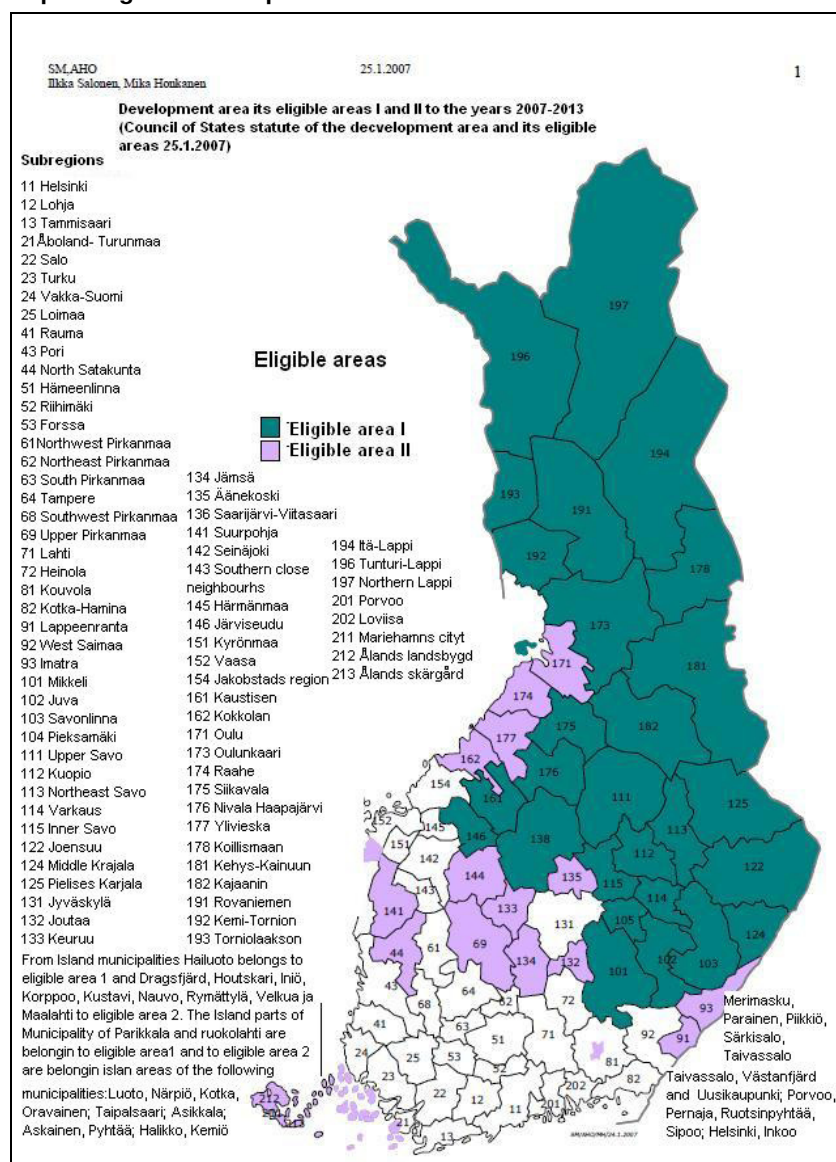
Source: Eurostat



Map 1: Regional GDP per head (2005-7) % of national average



Source: Own elaboration from Eurostat data

**Map 2: Regional aid map 2007-13**


Source: Ministry of Employment and the Economy, available at: [http://www.intermin.fi/intermin/images.nsf/files/d8938d7e67d62ddac225728200397db4/\\$file/tukialuekartta\\_25012007.pdf](http://www.intermin.fi/intermin/images.nsf/files/d8938d7e67d62ddac225728200397db4/$file/tukialuekartta_25012007.pdf) (accessed 29.07.2010).

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.034	0.034	0.048	0.043	0.025	0.028
<b>EfD</b>	2.243	2.269	2.195	2.221	2.177	2.346
<b>Social protection</b>	25.7	25.8	25.9	25.4	24.6	
<b>Cohesion policy</b>	0.225	0.238	0.185	0.191	0.179	0.116

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
			545	1051	120	1716

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
1528.203	0.146	42.0	47.2	0.1581	40.5

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• Business aid awarded by State regional offices	€108.8mn (2007)	0.0606
- of which: co-funded by the Structural Funds	€84.3mn (2007)	0.0470
• Regional transport subsidy scheme	€5.3mn (2007)	0.0030
• Support for regions facing abrupt structural change	€26mn per annum	0.0152
• Kainuu experiment (regional development responsibilities)	€59mn (in 2010)	0.0345
• Annual programme-based funding (regional councils)	€30mn per annum	0.0175
- of which: Centre of Expertise programme	€8.7 mn (in 2010)	0.0051

**Source:** National expert's report.

## FINLAND

### Overview

The Regional Development Act which dates from 2002 and was last revised in 2009 sets out the basic parameters for policies and measures targeting cohesion.<sup>1</sup> The most recent revisions strengthened the autonomy of regional councils (associations of local authorities) in the regional development system and clarified the roles of different state authorities, including the position of regional development in the decision-making of central government and sectoral ministries. Within the Regional Development Act framework, each new government issues regional development goals which impact on both the regional strategies of sectoral ministries and regional programmes. For 2007-11, the key goals were: to improve national and international competitiveness in the regions; to strengthen regional viability and reduce regional disparities; and to solve specific regional challenges (in particular addressing areas undergoing deep industrial structural change).<sup>2</sup> In 2010, a national regional strategy 2020 provided a framework for the operation of sectoral policies in the regions and the role of regional authorities; it confirmed the importance of regional convergence and identified the special strengths of regions and their contribution to national development.<sup>3</sup> Also in 2010, and as discussed further below, the coordination of domestic and EU regional policy was strengthened, both at the regional level and centrally.

### Objectives

In the 2009 Regional Development Act, the objectives of regional development are: to improve the national and international competitiveness of regions; to enhance economic balance and business development activity; to develop sustainable labour markets, diminishing regional disparities and improving regional strengths; and to enhance the well being of inhabitants, the quality of the environment and the sustainability of the regional structure. These objectives reflect the 2007-11 government goals: strengthening national and international competitiveness; improving regional viability and reducing disparities; and solving specific challenges. The national regional strategy 2020 highlights broader principles: economically, socially and ecologically sustainable development; improved policy effectiveness through networking and cooperation; the targeting of region-specific needs; regional specialisation; urban areas as engines of growth and a polycentric spatial structure; improving regional responses to demographic challenges; ensuring a balanced education structure and lifelong learning; simplifying administrative practices; and improving the quality of statistics as well as monitoring and forecasting information.

### Regional problem

The main regional challenge concerns areas with uncompetitive industrial and economic structures. A second problem arises from demographic developments and associated structural and economic challenges (including non-sustainable public services). There is tension between an ageing population structure and changing industrial structures and the related need for educated labour; some areas and sectors face high unemployment, while others lack skilled labour. The problem is more severe in regions experiencing population loss because negative migration lowers already low shares of young people in the

population. A further issue concerns the regional spatial structure, with migration to city regions and Southern Finland.<sup>4</sup> Given these trends, sparsely-populated areas remain a core challenge, especially in the north and east.

### **Policy response**

Regional policy has evolved through industry-focused and planning-oriented phases to the present programme-based approach. Over time, there has also been a shift from targeted (mostly aid-based) policy towards broader regional development measures in support of the business and innovation environment. While the weakest regions still receive considerable support (including regional aid), globalisation has shifted the policy focus towards all-region development. Regional policy operates within a framework where the government lays down the goals of policy; where, in line with these goals, regions develop regional strategic programmes (and annual implementation plans) and sectoral Ministries produce regional plans; and where the Structural Funds and national special programmes (since 2010, the KOKO cohesion and competitiveness programme, as well as the centre of expertise programme) provide related funding. The regional strategic programmes play an important role in helping to align EU and domestic priorities and are increasingly coordinated with the plans of sectoral ministries through the budget negotiation process.

Regional aid policy operates in the designated aid areas (holding 32.9 percent of the population) with differentiation between Aid Area I (mainly sparsely-populated areas covering most of the north and east) and Aid Area II (parts of west and east Finland and the islands - see Map 2 above). South and south-western Finland are the only areas not designated, though they benefit from SME support. State aid for the development of businesses is governed by Law 1336/2006 and Act 675/2007. The two main aids are business development aid and development aid for the business environment. They aim to promote economic growth, employment and business competitiveness and focus particularly on the establishment, development, growth and internationalisation of SMEs. In 2007, business aid awarded by State regional offices totalled €108.8 million (of which €84.3 million was co-funded by the Structural Funds), with almost €103 million of business development aid. A regional transport subsidy for SMEs in low population density areas involved expenditure of €5.3 million in 2007.<sup>5</sup>

In addition to such regional aid, regions facing abrupt structural change (usually related to rapid job loss) receive targeted support. There are 11 such subregions, all within the designated aid areas; the aim is to provide assistance quickly to counter major structural change (e.g. through job losses in the paper industry). Funding is some €26 million per annum. The Kainuu region also receives special treatment, as part of a self-governance experiment under which the regional assembly has gained regional development responsibilities and various municipality functions. The Kainuu experiment is due to end in 2012; it was allocated almost €59 million of national development funding in 2010.

At the regional-level, regional councils are responsible for the general development of their region on behalf of their municipalities. Through partnership working, their task is to draw up a regional plan, a regional strategic programme (and annual implementation plan) and a regional land-use plan. The regional plan sets out longer-term regional development goals

and forms the basis for the other programmes. The regional strategic programme and annual implementation plan are at the centre of the programme-based delivery of regional policy. They are supported in funding terms by special national programmes targeted at specific themes - centres of expertise, the development of regional centres, islands and rural areas - and by the Structural Funds. In 2010, the KOKO cohesion and competitiveness programme replaced these special programmes, apart from the centres of expertise programme. KOKO aims to improve regional competitiveness and promote regional networking. It is seen as an instrument which supports the cohesion dimension of the Lisbon Treaty and the competitiveness component of the Lisbon strategy. It focuses on: new cooperative working methods and networking; programme learning; local anticipation of development challenges; and partnership. Annual programme-based funding to the regional councils totals some €30 million per annum, significantly less than regional aid support.

Under the Regional Development Act, ministries responsible for certain sectoral policies are required to draft their own regional development strategies, set themselves regional development goals (aligned with the government's regional development objectives) and develop principles for the regional allocation of funding in their areas of responsibility. Ten ministries are covered by these provisions: Employment and the Economy; Transport and Communications; Agriculture and Forestry; Justice; Education; Defence; the Interior; Social Affairs and Health; Finance; and the Environment though only five have, so far, produced regional strategies: Employment and the Economy; Agriculture and Forestry; Finance; Social Affairs and Health; and the Environment.

### **Policy features**

As discussed earlier, the 2009 Regional Development Act and the government's published objectives for 2007-11 set the overarching framework for regional policy. They provide the context within which regional strategic programmes and the regional development strategies of sectoral ministries are formulated. The national regional strategy 2020 also plays a role in influencing longer-term strategic developments.

The main objectives of policy are set out in the government's 2007-11 goals: strengthening the competitiveness of regions, ensuring that regions remain viable and that regional disparities are reduced, and solving specific regional challenges. For the most part, the focus is on economic cohesion though, at the national level, there is also considerable stress on territorial cohesion (in particular, the sustainability of regional spatial structures). Territorial cohesion also underpins the regionally-based components of policy.

Responsibility for the delivery of regional policy is formally shared between the State and the municipalities. The latter act through the regional councils in managing functions related to regional development. Policy objectives are defined at the national level and provide guidance and coordination for specific sectoral ministries<sup>6</sup> concerning their regional development plans, and for the regional councils in developing their regional strategic programmes. In 2010, State authorities at the regional level were reformed, with the creation of an agency for regional administration (AVI, six regional offices) and centres for business, traffic and the environment (ELY, 15 regional offices). These bodies replaced a number of existing authorities and cooperate closely with the regional councils, which have

overall responsibility for regional development. Following the reform, national sectoral ministries have increased their strategic role (by formulating sectoral goals in a regional development context), but implement policy through AVI and ELY.

Regional policy coordination has traditionally been a challenge, given the number of actors involved in regional development. Cross-sectoral as well as regional-level coordination has, however, improved. Regional strategic programming has encouraged the key regional development actors (the regional council, State bodies in the region and the social partners) to formulate plans and decide priorities jointly. Such coordination was initially limited to the programming process, but now also applies operationally. Moreover, sectoral ministries are now required to negotiate with the regions regarding their implementation plans and related funding allocations. At the central-level, the regional budgeting process has also become more coordinated. Under the 2009 Regional Development Act, a regional development negotiation committee has been set up to coordinate the preparation and monitoring of ministries' regional budgets, to summarise budget proposals, and to organise negotiations between the central-level and the regional councils, as well as overseeing any other coordination tasks with respect to regional development. Importantly, this body now integrates domestic regional policy and Structural Funds policy actions; previously, there were two separate bodies, one for domestic and another for EU regional policy.

### **Importance of Cohesion policy**

Cohesion policy and domestic regional policy are closely linked, both in terms of the policy cycle and policy substance. However, the core features of policy are domestically-driven. With respect to strategic choices, competitiveness and the development of regional strengths and expertise are long-standing domestic themes which pre-date EU strategic choices and the Lisbon agenda. For example, improving regional competences and regional cohesion were amongst the key objectives of the 1993 Regional Development Act. In contrast, emerging themes relating to climate change and a low-carbon economy have been influenced more by the EU agenda.

As regards funding, domestic regional policy and EU Cohesion policy are closely aligned. As noted earlier, a large part of regional aid funding is co-financed. This is true more generally of funding channelled through the ELY regional centres. This is estimated to total €1172 million in 2010, mainly in the form of specific employment and education-related actions (€552 million) and ERDF programmes (€535 million, covering both EU and State components) but also including support for business investment and development projects (€39.4 million), regional development aid (€30.2 million) and employment-related investments (€15.4 million). Regional Management Committees are in charge of allocating both Structural Funds and domestic co-finance to the relevant intermediate bodies in the framework of annual cooperation documents.

With respect to governance, the partnership approach adopted at the regional level (via the regional councils and regional management committees) aims to ensure the close coordination of EU and national actions and measures. This was strengthened under the 2009 Regional Development Act, where the focus of coordination was extended beyond the Structural Funds to include domestic policy.<sup>7</sup> At the central level, a regional development

negotiation committee and a Structural Funds negotiation committee were set up in 2007. While the former focused on central-level coordination and improving transparency in the budgeting process, the latter sought to enhance information exchange on EU- and domestically-funded programmes and promoted their aligned implementation. More recently, the 2009 Regional Development Act led to the merger of these two committees. The new negotiation committee for regional and structural policy has the task of improving overall coordination between domestic and EU regional policies.

Finally, regarding the overall impact of EU Cohesion policy on domestic approaches, there has been incremental change over the years, with clear EU influence on strategy development, thinking with respect to the policy cycle and the role of policy evaluation.

### **Impact of the crisis**

The crisis has worsened disparities, sometimes in unexpected locations. Most problem areas have, however, remained those of long-standing low growth and high unemployment - mostly rural (sparsely-populated) areas and island regions. The economic difficulties facing municipalities have increased regional inequalities given the reduced ability of smaller municipalities to invest in services and knowledge. There is felt to be a danger that, after the economic crisis, development will concentrate in a few urban areas and that other areas may not be able to benefit from a future upturn. The crisis has intensified structural change in industry; its effects can be seen especially in regions dependent on forestry. This has increased the emphasis on targeted restructuring efforts. From a policy perspective, the crisis has restricted development efforts by cutting back on municipality co-financing while also limiting private-sector contributions. It has perhaps also increased the appreciation of there being a comprehensive approach to regional development and policy.

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### **ENDNOTES**

<sup>1</sup> Regional Development Act 1651/2009.

<sup>2</sup> Government Decision TEM103:00/2008.

<sup>3</sup> TEM (2010): *Suomen Aluekehittämissstrategia 2020: Aluestrategia 2020, Territorial Strategy 2020*, Ministry of Employment and the Economy, 17 March 2010.

<sup>4</sup> Ministry of the Interior, *Maakuntien suhdannekehitys 2003-2007*, 6 September 2007.

<sup>5</sup> See State aid reference number N 88/2008.

<sup>6</sup> As set out in Government Decision TEM103:00/2008, these include: Ministry of Employment and the Economy, Ministry of Transport and Communications, Ministry of Agriculture and Forestry, Ministry of Justice, Ministry of Defence, Ministry of the Interior, Ministry of Social Affairs and Health, Ministry of Finance, and the Ministry of Environment.

<sup>7</sup> Reivonen, T. (2009) 'Alueiden kehittämisslain uudistus hahmottuu', *Alue-integraattori*, 1/2009.





## 9. FRANCE

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
63.825	100.9	2.6	20837.4	632834	1943436	108.4

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	20.7	20.9	20.5	20.6	20.9	19.9	20.3	20.4	
GDP(PPS) per head (NUTS3)	23.2	23.9	23.8	23.4	23.7	22.7	23.3	23.4	
Unemployment rates (NUTS2)	24.1	27.8	41.8	37.4	37.1	35.8	34.8	35.3	35.2
Unemployment rates (NUTS3)	28.1	31.8	44.3	39.8	39.3	37.8	36.8	37.4	37.4
Employment rates (NUTS2)	7.1	6.9	8.3	8.0	7.2	7.1	7.2	7.4	6.6
Employment rates (NUTS3)	17.4	17.2	17.5	17.2	16.3	na	na	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
France	20400	22000	22900	23700	23200	23800	24900	25700	27000
Min inc DOM	10900	10100	11800	12300	11600	11300	11800	11900	12100
Min exc. DOM	15600	16500	17400	17800	17400	18000	19100	20100	21100
Max	31900	34400	35600	37200	36300	36700	38600	39600	42000
<b>GDP(PPS) per head NUTS 3</b>									
France	20400	22000	22900	23700	23200	23800	24900	25700	27000
Min inc. DOM	10900	10100	11800	12300	11600	11300	11800	11900	12100
Min exc. DOM	13600	14400	15000	15700	15500	15900	16800	17500	12800
Max	58600	62900	65800	67600	65400	64900	68500	69000	75300
<b>Employment rates NUTS 2</b>									
France	na	na	50.4	50.6	51.4	51.2	51.3	51.3	51.9
Min inc DOM	32.3	27.4	28.7	29.8	36.2	35.7	36.9	38.5	39.6
Min exc. DOM	32.3	27.4	28.7	29.8	39.9	39.3	41.8	43.8	42.1
Max	55.5	56.8	57.1	56.9	55.9	56.0	56.2	55.6	56.9

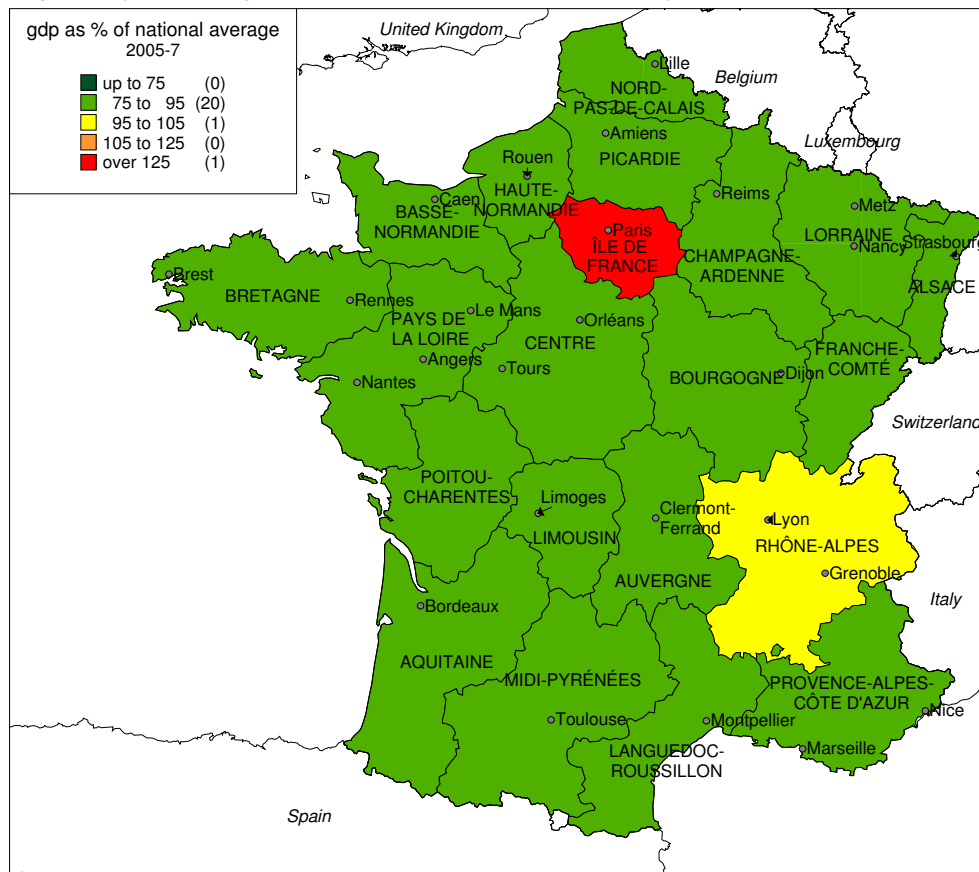
Cont...

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Unemployment rates NUTS 2									
France	12.0	10.2	9.1	9.2	8.9	9.3	9.3	9.3	8.3
Min inc. DOM	7.5	6.5	4.2	5.4	5.4	4.8	4.8	5.8	5.6
Min exc. DOM	7.5	6.5	4.2	5.4	5.4	4.8	4.8	5.8	5.6
Max	26.0	22.2	31.5	29.3	31.6	32.8	30.1	28.5	25.2
Unemployment rates NUTS 3									
France	12.0	10.2	9.1	9.2	8.9	9.3	9.3	9.3	8.3
Min inc. DOM	6.6	5.2	4.2	4.7	5.0	4.2	4.3	5.3	4.5
Min exc. DOM	6.6	5.2	4.2	4.7	5.0	4.2	4.3	5.3	4.5
Max	26.7	23.1	31.5	29.3	31.6	32.8	30.1	28.5	25.2
Disposable household income (PPS) per head NUTS 2									
France	12467.2	13396.7	14716.8	15380.8	14738.0	15278.0	15923.8	16495.9	17325.7
Min inc. DOM	6978.6	7139.3	na	na	na	na	na	na	na
Min exc. DOM	10211.3	11112.9	12314.2	12849.1	12378.5	12833.5	13456.5	14316.2	14939.0
Max	15411.0	16557.9	18177.2	19222.8	18306.0	19019.6	19545.1	19704.1	21072.4

Source: Eurostat

Map 1: Regional GDP per head (2005-7) % of national average



Source: Own elaboration from Eurostat data



**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
12704.151	0.112	29.6	42.5	0.1032	21.4

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	<i>Annual average</i>	<i>% of GDP</i>
• Regional Policy Grant ( <i>Prime d'aménagement du territoire</i> )	€40 mn	0.0021
• SME support in assisted areas	€100 mn	0.0052
• Fiscal incentives in assisted areas	€80 mn	0.0042
• <i>Contrats de site et contrats territoriaux</i> (2009)	€13.4 mn	0.0007
• Defence Restructuring Contracts (2008-15)	€45.71 mn	0.0024
• National Territorial Renewal Fund (FNRT) (2009-11)	€45 mn	0.0024
• Rural Excellence Poles (2006-09)	€58.75 mn	0.0031
• Corse support programme (2007-13)	€150.14 mn	0.0078
• Competitiveness poles (2009-11)	€500 mn	0.0262
• <i>Grappes d'entreprises</i> (2010-11)	€10 mn	0.0005
<b><i>State regions project contracts (2007-2013)</i></b>		
• Transport	€468.57 mn	0.0244
• Higher education and research	€414.29 mn	0.0216
• Sustainable development	€312.86 mn	0.0163
• Agriculture, forestry, fishery	€171.43 mn	0.0089
• Culture	€60 mn	0.0031
• Employment	€61.29 mn	0.0032
• Industry	€35.71 mn	0.0019
• Overseas	€38.29 mn	0.0020
• Urban planning	€36 mn	0.0019
• Health	€31.14 mn	0.0016
• Tourism	€6 mn	0.0003

Note: The % of GDP data are calculated for all years for which GDP data is available and then averaged.

Source: National expert's report and information on regional aid schemes.

## FRANCE

### Overview

Regional policy in France is characterised by its cross-cutting nature and covers a large number of instruments targeted at different types of territories. From 2004, it has embraced an increasingly competitiveness-oriented approach. At the same time, initiatives favouring disadvantaged areas (e.g. rural, mountainous, declining) are being maintained. The management and implementation of the mainly sectorally driven initiatives are coordinated by the Inter-ministerial Delegation for Territorial Development and Regional Attractiveness (DATAR, *Délégation Interministérielle à l'Aménagement du Territoire et à l'Attractivité Régionale*) based on strong cooperation with regional State services (*préfets*). The *préfets* are required to collaborate with regional authorities whose role has been enhanced since the 1980s decentralisation laws. Since the reform of Structural Funds in 1988, French regional policy, and most notably the State-region contracts (CER), has been increasingly aligned with EU Cohesion policy. This has gone particularly far in the field of policy implementation; regarding policy content, despite important similarities, there remains a distinctively French approach to domestic regional policy.

### Objectives

Regional policy objectives are expressed via legal documents for policy instruments, policy declarations and decisions made at the meetings of the Inter-ministerial Committee for Territorial Development and Regional Attractiveness (CIADT, *Comité interministériel d'aménagement et de développement du territoire et d'attractivité régionale*). The main objective of the central State is to “*adjust inequalities in advantages between territories*”.<sup>1</sup> The diversity of underlying aims is reflected in the legal basis of the DATAR, addressing different dimensions of cohesion, notably territorial and economic, but also social. These concern the strengthening of economic attractiveness, cohesion and competitiveness of the territories; supporting economic change; improving accessibility; and promoting sustainable, balanced and coherent development of rural and urban territories. Furthermore, the enhancement of territorial innovation networks is targeted.<sup>2</sup>

### Regional problem

Continental France does not display major internal disparities (considerable differences persist regarding its four overseas regions). Historically, there was a strong dichotomy between the capital and the periphery, but related conflicts have changed in nature and eased off over time. Although GDP remains geographically concentrated in a few regions, and old industrial regions in the North and East continue to be most affected by economic difficulties, this is mitigated by the importance of the ‘residential economy’<sup>3</sup> and national redistribution systems, leading to a more even distribution of incomes.<sup>4</sup> France is characterised by a varied geography, including mountainous and coastal zones. Rural areas have benefitted from special attention for a long time with varying focus, reflecting changes in the nature of the problem, with trends of rural exodus being partly reversed. Finally, there is felt to be a lack of urban centres of international standing outside Paris.<sup>5</sup> Strong social differences can be observed within urban areas, but related problems are

tackled mainly under targeted urban policies with the objective to reduce inequalities and segregation.

### Policy response

In France, a mix of narrow and broad regional policy instruments is implemented, mainly under an all-region approach. Map-based support amounting to €40 million annually is available via the Regional Policy Grant (PAT, *Prime d'aménagement du territoire*) in order to “correct development disparities in supporting the relocation and emergence of projects for sustainable job creation in the most disadvantaged areas”.<sup>6</sup> SME support is also offered in assisted areas with an annual budget of €100 million,<sup>7</sup> as well as fiscal incentives amounting to €80 million per year.<sup>8</sup> In addition, local authorities have the possibility to offer map-based aid under a framework scheme with an estimated annual budget of €300 million.<sup>9</sup> From 2005, Rural Excellence Poles (*pôles d'excellence rurale*, €235 million in 2006-09) have been selected in rural revitalisation zones and outside urban centres with more than 30,000 inhabitants to enhance dynamism in rural areas. *Ad hoc* support is also provided in areas facing structural change via joint restructuring projects (*Contrats de site/ territoriaux*, €13.4 million in 2009) in order to provide an appropriate response to industrial restructuring with important local socio-economic impact. In addition, firms with more than 1,000 staff are obliged to fund local development measures based on a convention with the State if they cut more than 100 jobs.<sup>10</sup> This has been completed by loans provided to smaller firms by the National Territorial Renewal Fund (FNRT, *Fonds national de revitalisation des territoires*, €135 million in 2009-11). Corsica, which is entirely covered by the aid map, receives exceptional support in the form of targeted tax relief and benefits from a multi-annual infrastructure investment programme to help it overcome its natural handicaps and reduce deficiencies in infrastructure and service provision (€1,051 million in 2007-13).<sup>11</sup>

Moreover, support is provided to the outermost regions. A law on the economic development of overseas territories was adopted in May 2009 based on measures in the following fields: purchasing power of populations; tackling unemployment; tourism; housing; territorial continuity; environment; citizenship and culture; fighting tax evasion.<sup>12</sup> In this context, around €300 million of additional funds are allocated, with a major part of tax expenditure in favour of economic free zones.<sup>13</sup> Overall, State expenditure was of around €16.83 billion in 2009 (including €3.46 billion of fiscal expenditure and €1.97 billion provided by the Ministerial Department in charge of overseas territories).

Recently, broader policies for regional development were developed in the framework of a new, cross-sectoral approach to industrial policy launched in 2004, with several initiatives in place to “improve territorial attractiveness”.<sup>14</sup> Most notably, support is provided to 71 Competitiveness Poles (*Pôles de compétitivité*), bringing together firms, research and training centres under a joint development strategy for R&D projects (€1.5 billion in 2009-11). It was found that such poles are strongly anchored in their territory, notably outside the capital region, and that they have promoted the innovation theme in regional policies.<sup>15</sup> In a complementary approach, clusters (*Grappes d'entreprises*) promoting novel approaches with leverage potential are supported (€20 million in 2010/11).

In addition, a number of sectoral policies pursue explicit cohesion objectives. Research and higher education policies explicitly tackle regional imbalances in R&D expenditure, patenting and human resources support. In order to end the territorial fragmentation of universities and research centres and enhance their visibility at European and international levels, clusters (PRES, *Pôles de recherche et d'enseignement supérieur*) are promoted.<sup>16</sup> Moreover, information and communication technologies are seen to be essential to cohesion with broadband as “an important factor of social and territorial cohesion”, notably in isolated rural areas in the absence of private suppliers.<sup>17</sup> A National Fund for Digital Territorial Development (*Fonds national d'aménagement numérique du territoire*) was set up in December 2009 to provide support for the provision of accessible and open infrastructures and networks in less densely populated areas.<sup>18</sup> Funding will be provided by the Fund for the Digital Society (*Fonds pour la société numérique*) which received €2 billion of the National Loan (*grand emprunt*) announced in December 2009 in response to the crisis.

Fiscal equalisation mechanisms are currently under review. They display a cohesion dimension based on the Constitution which stipulates that “the law provides for equalisation mechanisms for promoting equality between territorial authorities” (Art.72-2). With the abolition of the business tax in 2010, a new tax was introduced to be levied by local authorities: the Territorial Economic Contribution, based on immovable property (CFE, *Cotisation foncière des entreprises*) and the added value of enterprises (CVAE, *Cotisation sur la valeur ajoutée des entreprises*). In future, municipalities receiving more due to the reform will contribute to funding transfers. The share of the CVAE for *départements* and regions will be calculated based on an equalisation fund, taking into account the location of firms, as well as resources and expenditure of local and regional authorities.

**Figure 8: Financial State commitments in favour of territorial development (€million)**

Funding	2007		2008		2009		2010	
	Commitment authorisations (CA)	Payment credits (PC)	CA	PC	CA	PC	CA	PC
- dedicated budget line (% of total)	317.4 (6.3)	400.4 (8.1)	283.5 (5.8)	373.5 (8.3)	344.5 (6.5)	337 (6.5)	345.7 (6.7)	341.9 (7)
- other budgets lines	4,731.7	4,541.4	4,684.3	4,154.2	4,974.4	4,846	4,835.2	4,513.7
<b>Total</b>	5,049.1	4,971.8	4,967.8	4,527.7	5,318.9	5,183	5,180.9	4,855.6
<i>Fiscal expenditure</i>		789		798		755		612
<i>European funds</i> <sup>(a)</sup>	1,379.7		1,407.2		1,435.4		1,464.1	

**Note:** (a) European funds are attributed via global envelopes (2000-06 and 2007-13). This assessment is made two years after results have been obtained, at the end of the period, in relation to initial targets based on regional previsions by fund. The most recent figures are those of the financial progress report of 1 June 2008 which only provides provisional data on the 2000-06 overall envelopes due to be closed in December 2009. There is no targeted envelope for territorial development. For 2007-13, data covers ERDF and ESF in current Euros.

**Source:** Assemblée Nationale (2009) *Op.cit.*, p.13



Since policy interventions and funding are spread over a number of policy areas, it is problematic to assess the relative weight given to policies displaying elements of economic, territorial and social cohesion. Overall, expenditure on territorial development shows that targeted spending only presents a small share of overall funding allocations (see Figure 8). The fact that DATAR was affiliated to the Ministry of Rural Areas and Territorial Development in 2009 has strengthened the importance of rural development in national regional development policy. Also, funding figures suggest that more traditional support, as provided to areas concerned by structural change and Corsica, is still important in comparison to recent, competitiveness-oriented initiatives.

### Policy features

Regional policy, and notably the above-mentioned instruments, is mainly delivered in the framework of (or in coordination with) the State-Region Project Contracts (CPER, *contrats de projet Etat-région*)<sup>19</sup> in a “double-ambition of competitiveness and cohesion”.<sup>20</sup> Their objectives and implementation are closely aligned with the Structural Funds programmes on the basis of the NSRF, notably aiming at improving regional competitiveness and attractiveness; the environmental dimension of sustainable development; and social and territorial cohesion. Funding amounts to just under €30 billion in 2007-13, provided mainly by the central State (€12.7 billion) and regional authorities (€15.4 billion). The most important sectors as reflected in State funding allocations are public transport (32 percent), higher education and research (20 percent), and the environment (14 percent).<sup>21</sup> Despite related efforts in the past, no equalisation mechanism is applied to regional funding allocations. In addition, the National Fund for Territorial Development (FNADT, *Fonds national d'aménagement du territoire*) is used to complement funding allocations, mainly directed at smaller projects at the local level.

Policy is implemented through a great variety of zones and territories, mainly identified at the sub-regional level. This is the case for regional aid which is available in a web of zones distributed across the whole country (see Map 2). Furthermore, zones have been singled out under different policy fields, such as ‘rural renewal zones’ (ZRR, *zones de revitalisation rurale*), ‘labour market renewal areas’ (*actions de revitalisation des bassins d'emploi*), and ‘defence restructuring zones’ (*zones de restructuration de la défense*). Funding is also allocated via project calls targeted at all regions, such as for Competitiveness Poles, SME clusters, and in the field of digital development. Moreover, assistance is available in mountainous and coastal areas, mostly in the field of governance arrangements. There is also a focus on functional territories in rural (*pays*) and urban areas (*agglomérations*) and, more recently, on functional economic areas at the supra-regional level.

Despite decentralisation trends promoting the regions as key actors in economic development and their increasing financial commitment, the division of responsibilities is still favourable to the central State. In the case of CPER, the regional State services (*préfets*) play a key role in adjusting national and regional priorities. Local authorities are also involved in partnership arrangements on an *ad hoc* basis, for example in the case of restructuring projects. Regional governance has also been promoted in the field of innovation during the recent development of Regional Innovation Strategies. In line with the cross-cutting nature of regional policy, most policy instruments are implemented in a

cross-sectoral approach, involving a number of ministries and specialist agencies (e.g. regional aid grant, rural excellence poles, clusters). DATAR is in charge of ensuring coordination across sectors and across levels, notably for the CPER.

### **Importance of EU Cohesion policy**

The strategic focus of domestic policies has been influenced considerably by EU strategies, notably the Lisbon and Gothenburg agendas. This is reflected in the use of European benchmarks, such as on innovation and the role of cities. In order to enhance thematic correlation, the CPER was adapted as the main strategic instrument of resource allocation. As specified in the National Strategic Reference Framework (NSRF), the main priorities for both the regional Operational Programmes (OPs) and CPER are: innovation and the knowledge economy; training, employment for priority groups, human resource management and social inclusion; development of information and communication technologies; environment, risk management and energy policy; and sustainable territorial development. In practice this means that the CPER now put a greater focus on intangible investments and include provisions to reduce greenhouse gas emissions.

In terms of funding, France receives €14.3 billion of Structural Funds in 2007-13 (this is roughly comparable with central state expenditure on cohesion measures, as discussed above, including allocations to the State-region contracts). Apart from the overseas regions, the whole of France is covered by the Competitiveness and Employment objective. Besides the regional OPs, four multiregional programmes are in place to support mountainous and river areas in line with domestic approaches. With respect to the sectoral distribution of funds, a major share is earmarked for RTD, innovation and entrepreneurship (37 percent), followed by environmental protection and risk prevention (15 percent), and transport (11.5 percent). The CPER constitute the main co-financing resource for Structural Funds, with an estimated €8 billion of ERDF contributing to related activities. Decisions on funding allocations are not made jointly since CPER projects are identified at the moment of contract signature while Structural Funds may complement related amounts on a case-by-case basis throughout the programming period.

Regarding governance arrangements, regional OPs are managed and implemented in close alignment with the CPER in order to create synergies. In this context, the timescale of the CPER was adapted to EU programming periods. Both instruments are overseen by the DATAR and managed by the regional *préfets* and their secretariats (except for Alsace, where the regional council is the Managing Authority). Joint approaches are also taken to monitoring and evaluation activities, based on a common monitoring system (PRESAGE), coordinated monitoring committees and common evaluation tools devised by a National Evaluation Body (INE, *Instance Nationale d'Evaluation*).<sup>22</sup> Therefore, significant policy impact can be detected in the field of domestic regional policy, notably regarding the CPER. This includes processes of policy design, where OP analysis was also used as a basis for the CPER, and is most notable in the field of evaluation, which was greatly enhanced, representing a real cultural change. In 2007-13, this involved the setting up of regional evaluation committees and the drafting of regional evaluation plans for OPs and CPER. Efforts are also underway to strengthen CPER monitoring. Finally, operational change was introduced to the CPER via an automatic decommitment mechanism, following the example of related EU requirements.

## Impact of the crisis

The crisis has had a differentiated impact, compounding the economic difficulties of old industrial regions in the North and East. At an inter-ministerial meeting for territorial development and competitiveness (CIACT) in February 2009, a National Economic Recovery Plan was launched with the aim to support employment and economic activity via grants for firms, tax measures and support for public investment. Funding is allocated in coordination with the CPER, however, the distribution of projects and expenditure is not driven by regional policy considerations *per se*. Furthermore, €418 million of CPER funding was brought forward in 2009, notably in the railway and higher education sectors. The plan also covers the above-mentioned National Territorial Renewal Fund (FNRT). In this context, *Commissaires à la reindustrialisation* were appointed in ten of the worst-affected regions to coordinate the policy response and ensure it retains momentum.<sup>23</sup> Finally, eligibility requirements for the PAT have been relaxed, and tax exemptions apply in newly-designated labour market areas (*bassins d'emploi*) which are heavily concentrated in the north of France. Funding will be further increased by the National Loan, notably in the fields of higher education and research, industry and SMEs, sustainable development and the digital economy; it is, however, difficult to say which share will be used in the pursuit of cohesion objectives.

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## ENDNOTES

<sup>1</sup> CIADT (2002) *Dossier de Presse*, 13.12.2002, p.3.

<sup>2</sup> Président de la République (2009) *Décret n° 2009-1549 du 14 décembre 2009 créant la délégation interministérielle à l'aménagement du territoire et à l'attractivité régionale*, Art.1.

<sup>3</sup> The term 'residential economy' is related to the capacity of territories to attract populations (retirees, tourists, students, etc) and their expenditure and consumption capacity. It is based on the promotion of services, recreational activities, education, culture, and good quality urban and natural environment. In France, it mainly concerns medium-sized towns in the south and west.

<sup>4</sup> DATAR (2009) *National Report France*, Conference of Council of Europe Ministers Responsible for Spatial Planning, 15<sup>th</sup> CEMAT, Moscow, 8 and 9 July 2010, p.3.

<sup>5</sup> CIADT (2003) *Pour un rayonnement européen des métropoles françaises, Eléments de diagnostic et orientations*, 18 décembre 2003, Supplément à la Lettre de la Datar de janvier 2004.

<sup>6</sup> DIAC (2008) *Circulaire du 15 juillet 2008 relative aux conditions d'instruction et d'attribution de la prime d'aménagement du territoire*, Bulletin officiel Equipement, 2008(15). See also Official Journal of the European Union (2007) *Prime à l'aménagement du territoire pour les projets industriels et services*, State Aid No. XR 117/2007, p.5.

<sup>7</sup> European Commission (2007) *Start-up aid for the creation of small enterprises*, State Aid N384/2007.

<sup>8</sup> *Mesures fiscales en faveur des entreprises créées dans les zones d'aide à finalité régionale*, Aid number XR 34/2008. Overall, tax breaks and specialised support offered in targeted areas across the country under the *de minimis* ruling (rural revitalisation zones, labour market renewal areas, defence restructuring zones) amounted to €910 million in 2009. These support measures are rather disparate and the link with territorial development policies has been questioned for a number of them; see: Assemblée Nationale (2009) *Rapport fait au nom de la Commission des Finances, de l'Economie générale et du Contrôle budgétaire sur le projet de loi de finances pour 2010*, no. 1946, Annex no.32 Politique des territoires, p.22/23.

<sup>9</sup> *Régime cadre d'aide publique à finalité régionale*, Aid number XR 61/2007.

<sup>10</sup> *Loi no. 2005-32 du 18 janvier 2005 de programmation pour la cohésion sociale*, Article L1233-84-90 du code du travail.

<sup>11</sup> *Loi n° 2002-92 du 22 janvier 2002 relative à la Corse*, Art.53.

<sup>12</sup> *Loi 2009-594 du 27 mai 2009 (LODEOM, Loi de développement économique pour l'Outre-mer)*.

<sup>13</sup> *Projet de loi de finance pour 2010 : Outre-mer*, Rapport général n° 101 (2009-2010) de MM. Marc MASSION et Éric DOLIGÉ, fait au nom de la commission des finances, déposé le 19 novembre 2009.

<sup>14</sup> Comité interministériel d'aménagement et de développement du territoire (2004) *Dossier de presse*, 14.09.2004, p.4.

<sup>15</sup> Boston Consulting Group and CM International (2008) *Evaluation des pôles de compétitivité*, Synthèse du rapport d'évaluation, p.3.

<sup>16</sup> *Loi n° 2006-450 du 18 avril 2006 de programme pour la recherche*, Art.5.

<sup>17</sup> Premier Ministre (2009) *Schémas directeurs et concertation régionale sur l'aménagement numérique du territoire*, Circulaire, no 5412/SG, 31.07.2009.

<sup>18</sup> *Loi n° 2009-1572 du 17 décembre 2009 relative à la lutte contre la fracture numérique*.

<sup>19</sup> Until 2006, these were called *Contrats de plan Etat-région*.

<sup>20</sup> Premier Ministre (2007) *Mise en œuvre des contrats de projets 2007-2013*, Circulaire no. 5213/SG, 25.04.2007.

<sup>21</sup> Assemblée Nationale (2008) *Avis présenté au nom de la Commission des Affaires Economiques, de l'Environnement et du Territoire sur le Projet de Loi de Finances pour 2009*, no. 1127, Tome V, Politique des Territoires, J. Le Nay, p.35.

<sup>22</sup> This is in line with evaluation recommendations. See: Inspection générale de l'administration and Inspection générale des finances (2005) *Rapport à Monsieur le Premier Ministre sur l'Avenir des Contrats de Plan Etat-Région*.

<sup>23</sup> These ten regions are: Bretagne, Champagne-Ardenne, Franche-Comté, Haute-Normandie, Lorraine, Midi-Pyrénées, Nord-Pas de Calais, Picardie, Poitou-Charentes, Rhône-Alpes.



## 10. GERMANY

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
82.111	229.9	39.0	4198.1	357093	2407200	115.9

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	17.5	17.6	17.9	17.9	17.8	17.6	17.3	17.3	
GDP(PPS) per head (NUTS3)	28.7	28.7	28.9	28.6	28.9	28.7	28.6	29.2	
Unemployment rates (NUTS2)	42.0	54.2	61.1	54.7	45.8	44.6	39.6	39.2	43.5
Unemployment rates (NUTS3)			64.1	57.9	49.5	48.6	44.6	44.3	49.8
Employment rates (NUTS2)	5.4	5.4	5.8	5.7	5.9	6.0	5.6	5.2	4.8
Employment rates (NUTS3)	7.3	8.2	8.6	8.4	8.8	9.0	9.0	8.7	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

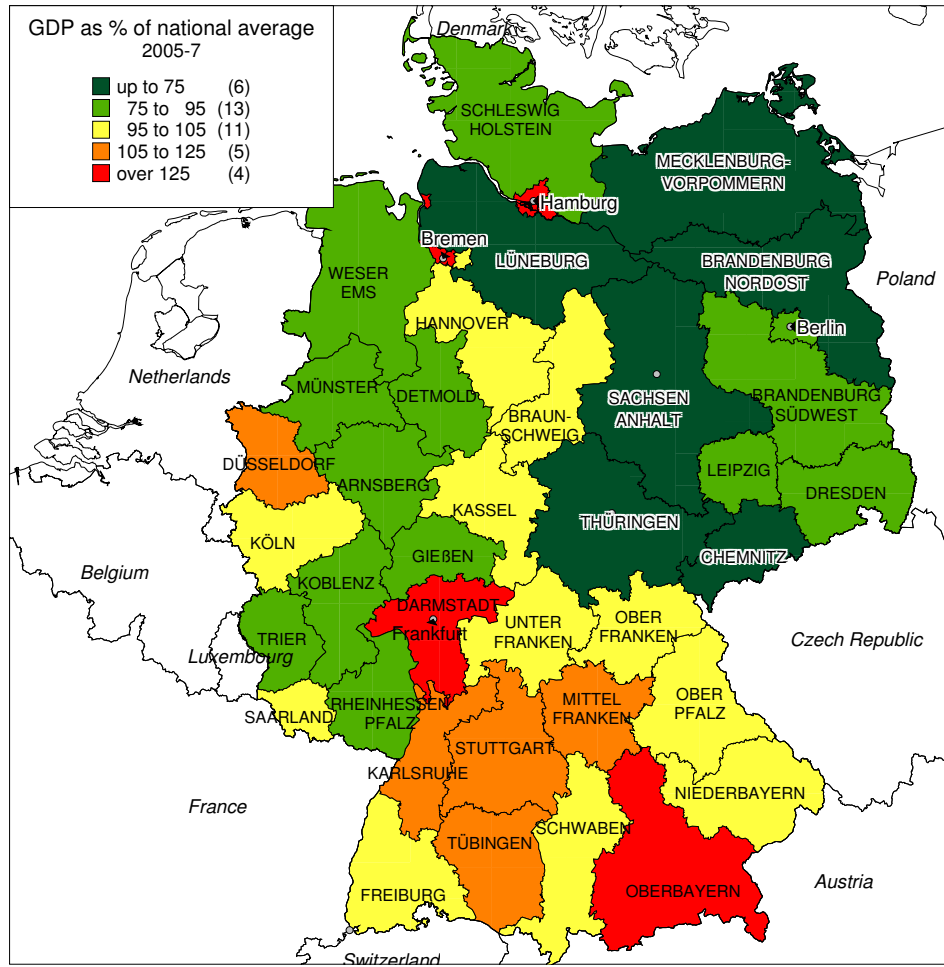
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Germany	21800	22600	23100	23600	24200	25200	26300	27500	28800
Min	14000	14500	15100	15500	15900	16400	17000	17900	19000
Max	36800	38200	39900	40800	41400	42900	45100	46300	47800
<b>GDP(PPS) per head NUTS 3</b>									
Germany	21800	22600	23100	23600	24200	25200	26300	27500	28800
Min	10000	10400	10400	10700	10800	11100	11700	12100	12700
Max	60800	70100	73100	72700	75300	76500	81800	80000	82400
<b>Employment rates NUTS 2</b>									
Germany	52.7	52.9	53.0	52.4	51.7	50.8	52.3	53.2	54.3
Min	na	na	na	na	na	45.5	45.8	47.6	49.9
Max	na	na	na	na	na	57.5	59.1	59.4	60.3
<b>Unemployment rates NUTS 2</b>									
Germany	8.9	7.9	7.8	8.5	9.8	10.7	11.1	10.2	8.6
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 3</b>									
Germany	8.9	7.9	7.8	8.5	9.8	10.7	11.1	10.2	8.6
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Germany	14600.0	15102.2	15604.1	15751.7	16145.2	16615.1	17192.4	17645.6	18059.5
Min	11625.0	12046.7	12410.9	12553.8	12865.0	13269.4	13719.2	14073.1	14330.8
Max	17253.9	18047.2	19066.1	19393.7	20171.4	21208.4	22355.6	22355.4	22920.2

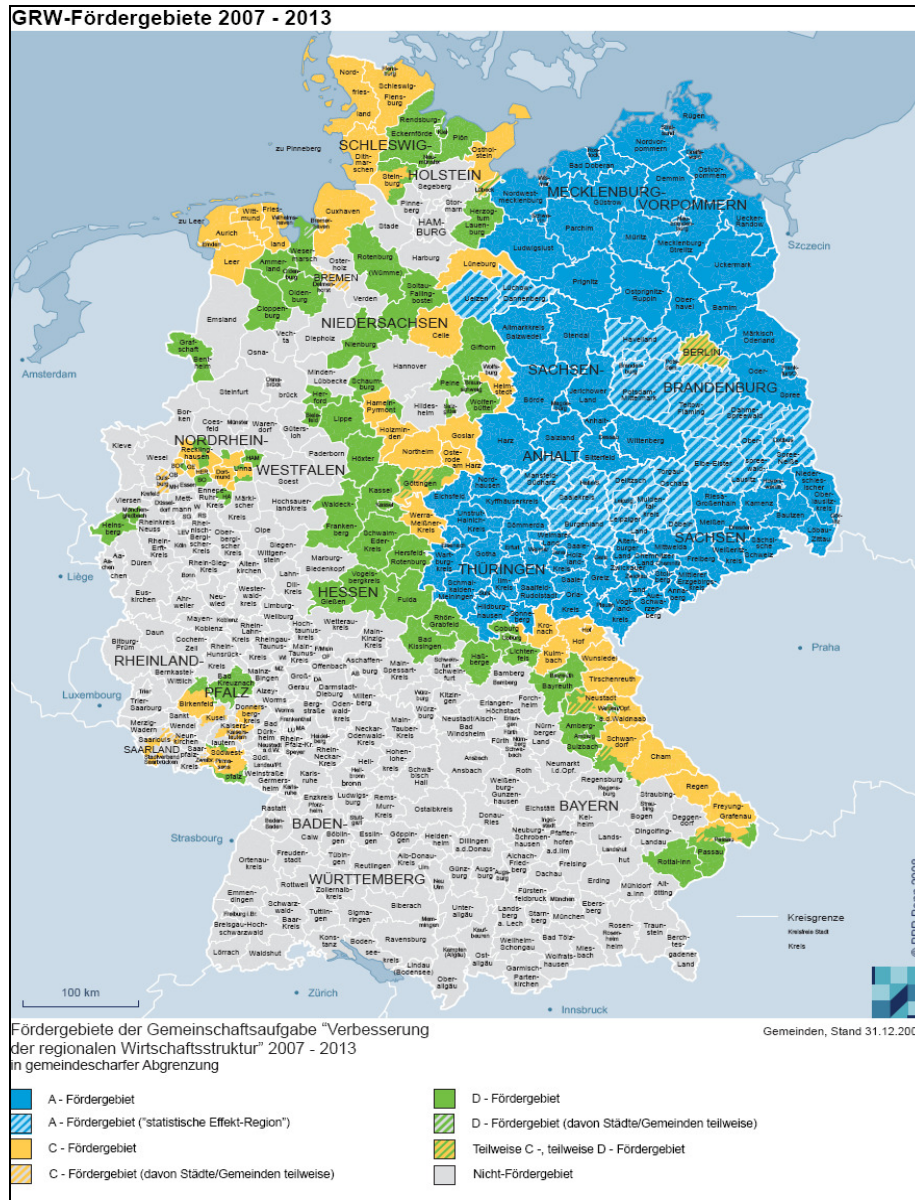
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

Map 2: Regional aid map 2007-13



Source: Federal Ministry of Economy and Science, available at: <http://www.bmwi.de/BMWi/Redaktion/PDF/foerdergebietskarte-ab-2007,property=pdf,bereich=bmwi,sprache=de,rwb=true.pdf> (accessed 28.07.2010).



**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.146	0.122	0.118	0.132	0.093	0.130
<b>EfD</b>	2.626	2.435	2.376	2.234	2.210	2.326
<b>Social protection</b>	29.4	28.7	28.6	27.6	26.7	
<b>Cohesion policy</b>	0.175	0.210	0.205	0.189	0.178	0.123

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
	11864	4215		9409	851	26340

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
23391.166	0.151	40.5	61.4	0.0696	15.8

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	Annual	% of GDP
• Solidarity Pact - annual federal allocation (2005-19)	€10.4bn	0.4256
• Fiscal equalisation mechanism to poorer <i>Länder</i> (1995-2009)	€3bn to €4bn	0.1228 to 0.1637
• Federal allocation to GA-Regions (85 percent to poorer <i>Länder</i> from the Solidarity Pact)	€650mn	0.0266
• Crisis funding (€200mn, 2009-11), 50 percent to poorer <i>Länder</i>	€66.7mn	0.0028

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report.

## GERMANY

### Overview

Germany's regional policy is based on the constitutional commitment to the creation of equivalent living conditions throughout the country<sup>1</sup> and is seen as an important component of broader economic policy. It has five main strands, namely joint federal and *Land* support for structurally weaker areas throughout Germany; additional federal support for public and private investment in the new *Länder*; the economic development strategies of the individual *Land* governments; a financial equalisation mechanism that redistributes funds between local and *Land* authorities throughout the country; and spatial planning policy. EU Cohesion policy resources are integrated into existing domestic budgets and co-finance domestic regional policy instruments, as well as other eligible policy fields.

### Objectives

The objectives of the main Germany-wide instrument, the federal-*Land* Joint Task for the Improvement of Regional Economic Structures (GA-Regions, *Gemeinschaftsaufgabe 'Verbesserung der regionalen Wirtschaftsstruktur'*) are set out in a federal law and in a framework document, and include the goals of reducing regional economic disparities by supporting regions whose economic development is considerably below the federal average and which show a concentration of companies with structural weaknesses.<sup>2</sup> Additional federal support for public and private investment in the new *Länder* is allocated in the context of the Solidarity Pact, whose objectives are set out in laws passed by parliament; it aims to create equivalent economic and social living conditions in eastern and western Germany, particularly by reducing infrastructure gaps and addressing sub-optimal local authority finances in the East.<sup>3</sup> The goals of the development strategies of the *Land* governments are agreed by individual *Land* cabinets and parliaments. The fiscal equalisation mechanism (*Finanzausgleich*) is based on the constitution (Article 107) and aims to ensure equivalent living conditions across Germany, so that fiscally weak *Länder* have adequate financial resources to fulfil their tasks.<sup>4</sup> The objectives of Germany's spatial planning policy are set out in the Spatial planning law, and include the goal of ensuring that there is balanced social, economic and environmental development across all regions.<sup>5</sup> In addition, the federal-*Land* Joint Task for the Improvement of Agricultural Structures and Coastal Protection (GA-Agriculture, *Gemeinschaftsaufgabe Verbesserung der Agrarstruktur und des Küstenschutzes*) are set out in a federal law and in a framework document, and include the goal of reducing regional economic disparities by supporting disadvantaged rural regions.

### Regional problem

The main regional development challenge in Germany relates to the ongoing structural economic weaknesses of the new *Länder*, which continue to lag behind the old *Länder* on indicators such as GDP per capita and unemployment rates. A degree of differentiation has emerged within the new *Länder*, with more positive developments in some urban areas, for example in Sachsen and Thüringen, and ongoing economic decline, particularly in rural areas. In addition to the structural divide between Germany's two macro-regions, there are

also persistent disparities within the old *Länder*, particularly between peripheral rural and urban areas, and between northern and southern regions.

### Policy response

Germany allocates significant resources to domestic regional policy instruments. The ‘Solidarity Pact’ involves an annual average federal allocation of €10.4 billion in 2005-19, while the fiscal equalisation mechanism transferred €3-4 billion annually to the new *Länder* (excluding Berlin) in 1995-2009.<sup>6</sup> The federal government allocates around €650 million annually to the GA-regions, with 85 percent (six-sevenths) of this funding allocated to the new *Länder* (including Berlin) and funded from the Solidarity Pact (plus a further €200 million in 2009-11, divided equally between old and new *Länder*, as a response to the economic crisis).

One strand of narrow domestic regional policy is implemented via the GA-Regions, which provides funding to structurally weak areas throughout Germany, mainly for direct aid to businesses (as well as related consultancy and training) and business-oriented infrastructure (including broadband infrastructure), plus R&D institutes, regional strategy-building and cluster initiatives. Funding is provided on a 50/50 basis by the federal government and the individual *Länder*. Federal and *Land* authorities in the GA Coordination Committee decide Germany-wide eligibility and implementing conditions, including area designation, while detailed operational issues are decided by each individual *Land*. Areas are designated at NUTS 3 level, except in Berlin where smaller geographical units are used. Area designation in 2007-13 is determined by a weighted index comprising: the average unemployment rate in 2002-05; the annual gross wage per employee paying social insurance in 2003; the employment forecast for 2004-11; and an infrastructure indicator. The GA-Regions map (see Map 2) covers 40.17 percent of the German population, including 28.1 percent with Article 87(3)(a) or (3)(c) status. The entire territory of the new *Länder* (excluding Berlin) is eligible under Article 87(3)(a), while structurally weak rural and industrial restructuring areas in the old *Länder*, along with areas in Bayern bordering the Czech Republic, are designated under Article 87(3)(c). Further GA-Regions, D-areas, are eligible for SME aid.

A second strand of narrow domestic regional policy is targeted solely on the new *Länder*, and is channelled through the Solidarity Pact II. The Pact involves €157 billion of federal funds in 2005-19, including €105 billion allocated directly to the new *Länder* governments for public infrastructure and economic development, plus €51 billion for a range of federal programmes, including investment in major transport infrastructure, additional business aid (notably the Investment Allowance (*Investitionszulage*),<sup>7</sup> and schemes in support of R&D, innovation, enterprise and marketing.

There are also various broader dimensions of domestic regional policy. In particular, under Germany’s federal governmental structure, each *Land* has its own economic development strategy and policies, which often include a strong focus on SMEs, as well as themes such as innovation and training. The *Länder* also work closely with the local authorities, which have significant responsibilities in areas such as local infrastructure and education. A further component of broad domestic regional policy is Germany’s spatial planning policy which covers all regions, regardless of their level of economic prosperity or employment. It

targets all types of activities, policies and plans that influence spatial development, and operates mainly via land use planning. Co-ordination between federal and *Land* governments is ensured via the committee of spatial planning ministers.

Given Germany's federal structure, many sectoral policies could be seen to incorporate certain cohesion objectives, either because they contribute to nationally balanced economic development, or because they are designed, financed and implemented by *Land* or local authorities. One sectoral instrument which explicitly focuses on specific types of area is the Joint Task for the Improvement of Agricultural Structures and Coastal Protection (GA-Agriculture, *Gemeinschaftsaufgabe zur Verbesserung der Agrarstruktur und des Küstenschutzes*) which aims to improve agricultural productivity and the protection of coastal areas and provides funding to farmers and coastal protection projects.<sup>8</sup> However, the GA-Agriculture focuses on all agricultural and coastal areas regardless of their level of economic prosperity or employment.

A key component of Germany's policy portfolio for addressing regional disparities is its fiscal equalisation system (*Finanzausgleich*) which has significant effects, adding around five percent to the GDP of the new *Länder*. This system aims to ensure equal access to mainstream public services and is implemented via three rounds of equalisation. The first round concerns vertical transfers, and involves the allocation of tax revenues from federal to *Land* and local levels. The second round of horizontal transfers then acts as a correction mechanism, and balances differences between fiscal capacity and fiscal need across *Länder*, with the aim of ensuring that all *Länder* reach a minimum fiscal capacity of 95 percent of the equalisation index. In the third round, additional federal transfers are allocated to *Länder* that are perceived to have special needs.

### **Policy features**

The overall framework for domestic regional policy is set by the constitution, which includes the goal of ensuring equivalent living conditions throughout Germany. In addition, there are specific frameworks for the different instruments of domestic regional policy, with the principles underlying these frameworks usually being agreed in federal or *Land* legislation, and further developed in formal or legal framework documents.

Policy objectives are often framed in relation to the overarching goal of ensuring equivalent living conditions, with a particular emphasis on reducing regional economic disparities by supporting regions whose level of economic development is considerably below the German average. Policies do not refer to EU levels of development or disparities as benchmarks.

Explicit domestic regional policy in Germany is targeted on structurally weaker regions, either throughout Germany or with a particular focus on the new *Länder*. However, due to Germany's federal structure, whereby *Land* and local authorities have significant decision-making and implementation responsibilities, the economic development strategies of the *Länder* can also be seen as regional policies for all regions. Similarly, the federal structure implies that regional policies are generally implemented by the *Land* governments, except where there is seen to be a need for federal intervention to assist all regions to work

towards achieving equivalent living standards, particularly through the GA-Regions and the Solidarity Pact.

The core principles of German domestic regional policies are generally laid out in domestic legislation, either by the federal parliament or, in the case of the individual *Land* strategies, the individual *Land* parliaments. Germany's federal structure includes extensive coordination mechanisms, including committees of all federal and *Land* ministers for specific themes (e.g. economy, transport, spatial planning). These political committees are supported by sub-committees of federal and *Land* civil servants who discuss and decide on technical and administrative issues.

### **Importance of Cohesion policy**

Germany is a significant contributor to the EU budget, accounting for 20 percent of total receipts or 0.88% of Gross National Income (EU average: 0.89 percent) in 2008, and is also an important recipient of Cohesion policy funding (8.7 percent of the total in 2008).<sup>9</sup> Cohesion policy has not had a significant influence on the content of regional economic development strategies in Germany, as most of the themes that are of major concern to Cohesion policy were already in place in domestic regional policies (e.g. infrastructure, business support, innovation, human capital). However, Cohesion policy has introduced a longer-term strategic approach to regional economic development policy within individual *Länder*. Similarly, the introduction of the National Strategic Reference Framework in 2007-13 has increased dialogue between the *Land* and federal authorities on medium-to-long term strategic goals and policies.

Cohesion policy funding is channelled into the domestic budgets of individual *Land* governments and federal ministries, who make decisions on the allocation of funding (in negotiation with the European Commission). Cohesion policy funding is not simply allocated to the budgets of domestic regional policies but to a range of policy fields (e.g. transport infrastructure, business support, training) that fit within Cohesion policy eligibility criteria. In most programmes, Cohesion policy funding simply increases the amount of resources for relevant domestic policy instruments and budget lines, and is generally earmarked for specific *Land* ministries. In a minority of cases, *Land* ministries must bid for Cohesion policy resources and develop new ideas for instruments for allocating funds.

Each Cohesion policy programme is managed by a specific unit within an individual federal or *Land* ministry, which distributes funds to other ministries and agencies to be used for co-financing domestic instruments and budget lines. Funding decisions for the allocation of Cohesion policy and domestic funding are therefore integrated, but are generally led by decision-makers responsible for relevant domestic policy schemes (including, but not confined to, domestic regional policies).

Cohesion policy has had some effect on the implementation of domestic policies, particularly at *Land* level. It has led to a stronger focus on evaluation, particularly ongoing evaluation methods and the evaluation of policy processes and governance issues. It has also encouraged a degree of experimentation in different approaches to support for regional development, including competitive methods for allocating funding. In addition,

Cohesion policy has stimulated the development of medium-to-long-term strategies and, through the introduction of the National Strategic Reference Framework and Operational Programmes, has promoted strategic dialogue.

### Impact of the crisis

The regional effects of the economic crisis in Germany are complex. The most immediate impact has been felt in Germany's economically stronger regions, particularly those with high exposure to the financial sector (especially the banks hit most severely) and export sectors (not least automotives). In addition, the slowdown in business activity has negatively affected local authority budgets due to a rise in welfare payments and a fall in corporate and income taxes. In the medium term, there are concerns that, while the more dynamic regions should recover well, the loss of even a relatively small number of jobs or firms in the more fragile economies of the new *Länder* could have structural economic effects. Similarly, the introduction of tighter fiscal policies to repay governmental indebtedness could have a stronger impact in the new *Länder* which have higher levels of public employment.

The federal government's fiscal packages have had a limited effect on regional policy. In particular, an additional €200 million was allocated to the GA-Regions in 2009-11 but, unlike mainstream Regional GA funding (where the new *Länder* receive six sevenths of resources), the additional funds are divided 50/50 between the old and new *Länder*. Moreover, additional funds of €0.9 billion in 2009-10 were allocated to one of the federal schemes for the new *Länder* which are funded by the Solidarity Pact, namely the Central Innovation Programme (*Zentrales Innovationsprogramm Mittelstand*), but the eligibility criteria were also temporarily broadened to include firms in the old *Länder*.

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### ENDNOTES

<sup>1</sup>Art. 72 Grundgesetz für die Bundesrepublik Deutschland [State Law of Germany] from 23. May 1949 (Bundesgesetzblatt, S. 1), modified by Article 1 law from 29. July 2009 (Bundesgesetzblatt I, S. 2248).

<sup>2</sup> Gesetz über die Gemeinschaftsaufgabe „Verbesserung der regionalen Wirtschaftsstruktur“ vom 6. Oktober 1969 modified by Article 137, Neunten Zuständigkeitsanpassungsgesetzes vom 31. Oktober 2006. Sechsenddreißigster Rahmenplan der Gemeinschaftsaufgabe „Verbesserung der regionalen Wirtschaftsstruktur“ für den Zeitraum 2007 bis 2010, Bundestag-Drucksache 16/5215 16. Wahlperiode 27. 04. 2007

<sup>3</sup> Deutscher Bundestag (2001) Entwurf eines Gesetzes über verfassungskonkretisierende allgemeine Maßstäbe für die Verteilung des Umsatzsteueraufkommens, für den Finanzausgleich unter den Ländern sowie für die Gewährung von Bundesergänzungszuweisungen (Maßstäbengesetz - MaßstG), Bundestag-Drucksache 14/6577, 04. 07. 2001.

<sup>4</sup>[http://www.bundesfinanzministerium.de/nr\\_4480/DE/BMF\\_\\_Startseite/Service/Downloads/Abt\\_\\_V/The\\_20Federal\\_20Financial\\_20Equalisation\\_20System\\_20in\\_20Germany,templateId=raw,property=publicationFile.pdf](http://www.bundesfinanzministerium.de/nr_4480/DE/BMF__Startseite/Service/Downloads/Abt__V/The_20Federal_20Financial_20Equalisation_20System_20in_20Germany,templateId=raw,property=publicationFile.pdf).

<sup>5</sup> Gesetz zur Neufassung des Raumordnungsgesetzes und zur Änderung anderer Vorschriften 2009 (GeROG) Article 2.

<sup>6</sup>[http://www.bundesfinanzministerium.de/nr\\_4480/DE/Wirtschaft\\_\\_und\\_\\_Verwaltung/Finanz\\_\\_und\\_\\_Wirtschaftspolitik/Foederales\\_\\_Finanzbeziehungen/Laenderfinanzausgleich/ZusammenfassungderAbrechnungsergebnisse fuer die Jahre ab 1995,templateId=raw,property=publicationFile.pdf](http://www.bundesfinanzministerium.de/nr_4480/DE/Wirtschaft__und__Verwaltung/Finanz__und__Wirtschaftspolitik/Foederales__Finanzbeziehungen/Laenderfinanzausgleich/ZusammenfassungderAbrechnungsergebnisse fuer die Jahre ab 1995,templateId=raw,property=publicationFile.pdf)

<sup>7</sup> Investitionszulagengesetz 2010 vom 7. Dezember 2008, BGBl. I S. 2350.

<sup>8</sup> Gesetz über die Gemeinschaftsaufgabe „Verbesserung der Agrarstruktur und des Küstenschutzes“. Rahmenplan der Gemeinschaftsaufgabe „Verbesserung der Agrarstruktur und des Küstenschutzes“ für den Zeitraum 2009 bis 2012 Rahmenplan der Gemeinschaftsaufgabe .Verbesserung der Agrarstruktur und des Küstenschutzes. für den Zeitraum 2008 bis 2011 Drucksache 16/9213 16. Wahlperiode 13. 05. 2008.

<sup>9</sup> European Commission DG Budget (2009) EU budget: 2008 financial report, Brussels.

## 11. GREECE

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	85.6	10.8	1063.3	131957	237494	93.3

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)		20.6	21.8	24.2	24.5	26.2	25.6	26.8	
GDP(PPS) per head (NUTS3)		22.8	23.9	25.8	25.9	27.9	27.3	28.6	
Unemployment rates (NUTS2)	13.4	15.2	16.5	14.7	15.9	18.4	18.3	14.0	15.2
Unemployment rates (NUTS3)	25.7	25.2	25.7	28.9	30.8	28.9	29.9	26.7	26.6
Employment rates (NUTS2)	5.2	5.1	4.3	3.8	3.2	4.1	4.3	3.7	3.5
Employment rates (NUTS3)	8.2	7.6	6.7	7.3	6.6	5.8	6.0		

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

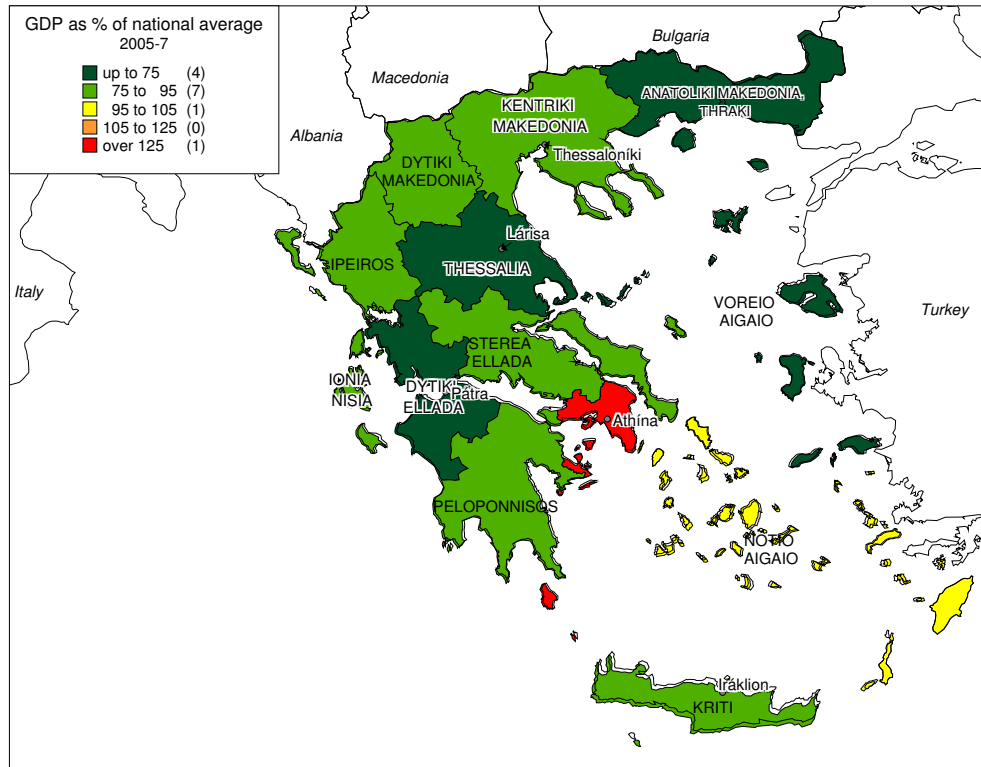
Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Greece	14700	16000	17100	18500	19200	20400	20600	22000	23100
Min	11400	11100	11800	12500	13000	13200	13600	14500	14900
Max	20400	20200	22000	24600	25900	27800	28100	29500	31900
<b>GDP(PPS) per head NUTS 3</b>									
Greece	14700	16000	17100	18500	19200	20400	20600	22000	23100
Min	9300	8900	9200	9400	10000	10500	10800	11300	12100
Max	36700	32300	32900	31500	30500	31000	30500	32500	33200
<b>Employment rates NUTS 2</b>									
Greece	46.0	46.3	45.9	46.6	47.4	47.6	48.0	48.6	49.0
Min	39.7	40.2	40.5	40.0	40.3	41.7	40.2	42.4	42.7
Max	54.6	54.4	53.5	51.8	52.9	52.6	53.2	53.4	53.7
<b>Unemployment rates NUTS 2</b>									
Greece	12.1	11.4	10.8	10.3	9.7	10.5	9.8	8.9	8.3
Min	8.2	7.3	6.8	8.2	7.4	7.7	7.1	7.0	5.3
Max	16.8	13.8	16.7	16.4	14.2	12.9	16.2	10.7	12.7
<b>Unemployment rates NUTS 3</b>									
Greece	12.1	11.4	10.8	10.3	9.7	10.5	9.8	8.9	8.3
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Greece	10069.5	10184.3	11180.7	12068.4	11693.7	12128.2	12767.3	13401.0	14816.5
Min	7744.8	7839.1	8486.0	9145.5	9108.3	7636.4	7495.6	7454.1	8553.9
Max	13710.2	13735.3	14844.9	16062.4	14737.1	15277.1	15673.4	16501.7	18251.2

Source: Eurostat



**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

Map 2: Regional aid map 2007-13



Category 1			Category 2	
Zones	Grants, leasing aid, labour subsidies	Tax exemption	Grants, leasing aid, labour subsidies	Tax exemption
A	20%	60%	15%	50%
B	30%	100%	25%	100%
C	40%	100%	35%	100%

**Note:** Indicatively, Category 1 refers to investment plans that involve tourism investments and actions concerning the environment, high technology, production of electricity from renewable natural resources, broadband infrastructures and innovative digital services, laboratories for the provision of quality services, amongst others; Category 2 includes investment in agricultural, fishery, mining and certain tourism activities.

**Source:** Greek government

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.149	0.172	0.123	0.136	0.208	0.252
EfD	4.783	5.301	3.769	3.361	3.392	5.594
Social protection	22.7	22.8	23.9	23.9	23.8	
Cohesion policy	1.107	1.530	1.357	1.706	0.116	0.089

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
3697	9420	6458	635		210	20420

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
18171.661	1.571	236.3	78.2	0.2168	80.0

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• Incentive for private investment supporting economic development and regional cohesion 2007-13 annual average	€297mn	0.1268
• Pindos programme 2005-10 annual average	€22.5mn	0.0096
• Support for shipping routes (2007)	€53mn	0.0234
• Support for air routes 2010-12, annual average	€22.5mn	0.0095

Note: The % of GDP data are calculated for all years for which GDP data is available and then averaged.

Source: National expert's report and State aid case XR 86/07.

## GREECE

### Overview

Despite significant internal disparities, the regional policy focus is mainly on enhancing national development, with particular stress on reducing the development gap with the EU. Since the launch of the first Community Support Framework (CSF) in 1989, domestic initiatives have been largely replaced by EU Cohesion policy and related measures. Cohesion policy provides the framework for national and regional economic development, the instruments and approaches (programme-based, growth and competitiveness-oriented) and has a key funding role (over 75 percent of the Public Investment Programme flows through an “EU-co-financed” budget line). The NSRF and OPs are complemented by a few domestic development initiatives, the most important being the Development Law, as amended, which provides the framework for investment aid in Greece.

### Objectives

There is a constitutional commitment to addressing spatial disparities (Article 106): “in order to consolidate social peace and protect the general interest, the State shall plan and coordinate economic activity in the country, aiming at safeguarding the economic development of all sectors of the national economy. The State shall take all measures necessary to develop sources of national wealth ... *and to promote regional development and to further especially the economy of mountainous, insular and frontier areas ...*” (italics added). The policy focus has traditionally been on reducing the development gap with the EU. The 2007-13 NSRF states that<sup>1</sup> “*The overall objective is to expand the country’s growth potential, accelerate its economic growth rate and increase productivity at levels higher than the Community average, with the prospect of achieving real convergence and improving the living quality of all citizens, with no exclusions whatsoever*”. At the same time, the desire to reduce regional disparities is explicitly acknowledged: “*The strategy concentrates on the need to implement policies at national and regional level, in such a manner that both regions and cities are attractive places for business, improving at the same time the living standard of its citizens and reducing inter- and intra-regional disparities.*” Regional policy, thus, has both competitiveness and equity objectives, but with most emphasis on the former.

### Regional problem

Regional disparities remain severe (also at the intra-regional level), although they are not expected to grow longer-term. Overall, regions are converging to the EU average in GDP per head terms, but the process is slow, with different regions facing different problems (e.g. population size, role of urban centres, industrial structure, sustainability, location, geography). With the exception of areas around Thessaloniki (part of Kentriki Makedonia) and, especially, Attiki,<sup>2</sup> regions have neither sufficient critical mass in population terms nor the necessary production and technological dynamics to meet the multiple challenges they face - whether linked to national structural problems or regional competitiveness pressures. Geographical particularities, especially the isolation of mountainous areas and the large number of islands, have created the need for special provision in education, health and

transport, with more policy weight given to connections between the Greek islands and the mainland.

### Policy response

Regional development measures are based strongly on the policy instruments provided under the 14 EU OPs (five regional, nine thematic). As already mentioned, the NSRF and OPs are complemented by a number of domestic initiatives. The most important is the Development Law, which provides the framework for investment aid. In addition, there is a nationally-funded OP for the Pindos mountain area and a specific programme (Theseus) to build local capacity (though it is doubtful whether these two programmes will be funded in the immediate future given current spending constraints). Also, over the last three years, the major municipalities have been asked, through a new legislative framework, to prepare and implement four-year operational plans, divided into yearly action plans and incorporating the implementation of local development strategies. Finally, some other nationally-financed policies have an indirect spatial impact in specific locations, such as mountainous areas (e.g. financial support for school transport in isolated areas) and islands (e.g. support for shipping connections to the smaller islands, differentiated value added tax for the islands).

A basic element of Greek regional policy is the 2004 Development Law, “Private investment incentives towards economic development and regional convergence” (Law 3299/2004, as most recently amended by Laws 3522/2006, 3631/2008 and 3752/2009). For eligible investment projects under this law, the following aids are available: a grant to cover eligible expenditure incurred by investment projects; a leasing subsidy to offset instalments payable in respect of a lease relating to the use of new equipment; a tax allowance; and a wage subsidy relating to employment created by the investment. The amount of aid varies by region (A, B or C),<sup>3</sup> activity and type of incentive (see Figure 8).

**Figure 8: Grant-related award ceilings**

Category 1			Category 2	
Zones	Grants, leasing aid, labour subsidies	Tax exemption	Grants, leasing aid, labour subsidies	Tax exemption
A	20%	60%	15%	50%
B	30%	100%	25%	100%
C	40%	100%	35%	100%

**Note:** Indicatively, Category 1 refers to investment plans that involve tourism investments and actions concerning the environment, high technology, production of electricity from renewable natural resources, broadband infrastructures and innovative digital services, laboratories for the provision of quality services, amongst others; Category 2 includes investment in agricultural, fishery, mining and certain tourism activities.

According to data from the Ministry of Economy, Competitiveness and Shipping, in the period 2004-08, 9,153 business plans were submitted for support under the 2004 Development Law, involving €24.5 billion investment. Of these 5,377 were approved (€11.37 billion). In May 2010, the Ministry announced the approval of new business plans, with a total budget of €70.6 million and an expected 400 new jobs. These focus on manufacturing (€33.9 million), tourism (€29.6 million) and renewable energy (€7.1 million).

In addition, a further 3,438 applications have been submitted which are expected to be evaluated before the end of the year.

Amongst nationally-funded measures targeting areas with specific characteristics, the Pindos programme, launched in 2005, was the first integrated development programme for a mountainous area (in the north-west). This multi-annual programme (€135 million budget) operates within the framework of a strategy for balanced development and enhanced social cohesion, promoting knowledge transfer and actively assisting private sector mobilisation. Although the programme has not been operational for more than a year and its payment rate stands at just 27 percent (end 2008), the new government has taken the decision to continue it. The Ministry of Economy, Competitiveness and Shipping has asked the involved regions to identify projects facing implementation problems in order that the available resources can be transferred to other projects with more impact in the region. On the other hand, as mentioned earlier, it seems doubtful if the programme will be funded in the immediate future.

Amongst other policies for disadvantaged areas, around 70 shipping routes to the islands receive support (€53 million in 2007), as well as some air routes (€22.5 million per annum for 2010-12). In addition, school transport is subsidised in isolated mountain areas and health centres receive extra support in rural communities. The Thiseas Development Programme of Local Authorities (2005-11) is also nationally-funded (under Law no. 3274/2004). It aims to build capacity, helping local authority administrations prepare and implement local infrastructure works, while also facilitating cooperative actions amongst local authorities and between them and the private sector. A key objective underpinning the programme is the “sustainable and balanced development of the country”. Funding is of the order of €3.5 billion overall, though questions remain as to whether support will be available in future given current expenditure constraints.

Two main fiscal equalisation mechanisms have traditionally been used to support less-favoured areas, especially islands: lower rates of VAT and reduced income tax. VAT rates are cut by 30 percent in the Aegean islands except Kriti; and there is also provision for lower income tax for permanent inhabitants of smaller islands (less than 3,100 inhabitants), with a 50 percent increase in tax-free income. The tax applied when properties pass from parents to children is also lower.

### **Policy features**

The overall framework for cohesion-related development policy is provided by the 2007-13 NSRF. This is soon to be complemented by the “National Development Plan 2007-13” (EPA) which will set out a national development strategy consistent with the programmes co-financed by Cohesion policy. While the EPA has still to be finalised, one important difference compared to the NSRF is likely to be the financial information it will provide on national funds (allocations to priorities, annual breakdowns etc). Under the EPA, “National Development Programmes” will also be produced by national ministries and the regions. This will help to specify the EPA at regional and sectoral levels.

As already mentioned, overall cohesion objectives, underpinned by the Constitution and specified in the NSRF, focus primarily on national development (reducing the prosperity gap with the EU), but are also concerned with reducing inter- and intra-regional disparities. With respect to specific regional policy instruments, investment incentives are targeted at both economic development and regional convergence, while the Pindos (mountain area) programme is part of a strategy for balanced development and improved social cohesion.

Traditionally the state structure has been highly centralised. EU pressures led to the establishment of a regional level in 1997, but the 13 regions remained state services, dependent on the state budget and with (at present) no self-government character (but see developments relating to the “Kallikratis” Plan below). CSF management was decentralised in 2000-06, but the overall framework continued to be highly centralised. For 2007-13, the OPs were designed on the basis of five regional groupings, but these fulfil only strategic planning purposes. A major revision of the state structure is currently being attempted - the “Kallikratis” Plan.<sup>4</sup> This aims to decentralise responsibilities to regional and local authorities; enhance the financial independence of local authorities; rationalise the system of municipality loans; significantly reduce the number of municipalities; and replace the current complex intermediate level with 13 regions and seven decentralised administrations (operating as decentralised authorities of central government).

Currently, the management of domestic regional policy is carried out by several Ministries, the most important being the Ministry of Economy, Competitiveness and Shipping. This has responsibilities for the management of the Public Investments Programme (PIP), the investment aid regime, and also shipping-related support for the islands. Many of the most important decisions at the central level are made by government interministerial committees established in particular policy fields.

### **Importance of Cohesion policy**

Greece is amongst those countries where EU Cohesion policy funding is of major importance; indeed, regional policy is largely synonymous with EU Cohesion policy. It is programme based, has both thematic/sectoral and regional components (with eligible regions covering the entire country) and focuses heavily on growth and competitiveness (though the NSRF also provides for the continuation of very substantial support for traditional social services such as healthcare and education infrastructure and for other measures furthering social cohesion). EU OPs provide the main source of economic development funding and are the chief policy mechanism. The focus is generally on national rather than regional development (though regional programmes are growing in importance) and the prime policy aim is to reduce the EU development gap. In Greece, strategic priorities and objectives and the production of long-term national development strategies are largely driven by EU Cohesion policy.

Both national and EU cohesion policy are delivered through the Public Investment Programme (PIP) budget. There are two distinct budget lines: a co-financed part (i.e. covering projects co-financed by the EU) and a domestic element (funded entirely from national funds and mainly project- rather than programme-based). Over the past two decades, the co-financed part of the PIP has represented more than 75 percent of the total

funds spent for public investments (except for the 2002-04 Olympic Games period, when national funds rose to almost 50 percent). Considering that the remaining 25 percent of the PIP also include the non eligible costs of co-financed projects, it can be concluded that domestic funds for genuinely domestic regional development projects are very limited, with only a few fragmented programmes supported (such as the Pindos programme).

Compared to domestic regional policy instruments, the management of the co-funded OPs is more sophisticated, reflecting a growing alignment with Structural Funds guidelines. EU regulatory reform in 1999 led to radical change via a new institutional framework, legislative reforms, new technologies and policy instruments and improved human resources.<sup>5</sup> The new CSF III institutions were designed to work in parallel with the classic public administration, having a supervisory, managerial and auditing role for the OPs. CSF management was decentralised, but the overall framework remained highly centralised. For 2007-13, a new Inter-ministerial Committee of Development Programmes which has coordination and monitoring roles and a National Coordination Authority have been set up with a view to improving effectiveness and absorption. Programme efficiency is also expected to be enhanced by the reduction in the number of programming regions from 13 to five. The 2007-13 Law for the Management and Implementation System (Law no. 3614/2007 as amended by Law 3840/2010), changed the national development strategy and the programming and management procedures for the domestic PIP. Under this law, the “National Development Plan 2007-13” (EPA) will provide a national development strategy consistent with the programmes co-financed by Cohesion policy. The EPA will be drawn up by the Ministry of Economy, Competitiveness and Shipping in cooperation with the other competent ministries and regions and will be approved by the Council of Ministers. The management and coordination of the National Development Plan, which will focus on national policy instruments, will be carried out by a newly established Special Service in the Ministry of Economy Competitiveness and Shipping.

The overall influence of EU Cohesion policy on the management and implementation of domestic policies has been varied.<sup>6</sup> While some management and implementation aspects of the domestic system have been affected extensively, others have been influenced only marginally. The most visible impact has been with respect to programming and partnership development, as well as some institutional issues. The domestic mechanisms of project generation, appraisal and selection and also the monitoring systems for domestic projects and programmes have been only moderately affected. Indeed, there is a growing recognition that broader administrative structures and regulations (outside the sphere of Structural Funds management and control systems) remain an issue (especially in the context of the business environment) and are having an increasingly negative impact on absorption capacities. Finally, there has been little or no impact with respect to domestic financial management systems and evaluation (at programme and/or project level) and reporting procedures.

### **Impact of the crisis**

The impact of the economic crisis on regional development is not yet clear, due in part to gaps in regional statistics. At the national level, the crisis was reflected in a significant fall in GDP during 2009 (with further declines expected); in higher unemployment; and in lower



industrial production. The industrial turnover index fell by over 30 percent in May 2009 compared to May 2008. Although the exact consequences on tourism remain to be seen, they are expected to mostly affect the island regions of the North Aegean, South Aegean, Ionian islands and Crete. With respect to policy, economic, social and territorial cohesion objectives have not so far been officially modified, although the new Government elected in October 2009 is planning to revise the NSRF programmes.

In addition, it seems clear that the crisis will have a major impact on public expenditure more generally. In May 2010, an IMF Stand-by Arrangement was approved in support of the authorities' economic adjustment and transformation program, amounting to €30 billion over a three-year period. The total international support package will amount to €110 billion, including funding from the EU.<sup>7</sup>

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#### ENDNOTES

<sup>1</sup> The final version of the NSRF was submitted on 12 March 2007 [URL: [http://www.hellaskps.gr/programper4/files/NSRF\\_VERSION\\_GR\\_SFC\\_120307.pdf](http://www.hellaskps.gr/programper4/files/NSRF_VERSION_GR_SFC_120307.pdf)].

<sup>2</sup> The polarity between the Attiki region and all other regions is a dominant feature of the problem. Almost half of the national GDP was produced by Attiki in 2007, with Kentriki Makedonia contributing a further 13.5 percent.

<sup>3</sup> Zone A includes the prefectures of Attiki and Thessaloniki apart from Industrial and Business Areas (VEPE) and the islands of those prefectures which fall within Zone B; Zone B includes the prefectures of Thessalia (*Karditsa, Larissa, Magnisia, Trikala*); Notio Aigaio (*Kyclades, Dodekanissos*); Ionia Nisia (*Kerkyra, Lefkada, Kefallonia, Zakynthos*); Kriti (*Iraklio, Lasithi, Rethimno and Chania*); Kentriki Makedonia (*Chalkidiki, Serres, Kilkis, Pella, Imathia, Pieria*); Dytiki Makedonia (*Grevena, Kozani, Florina, Kastoria*); and Sterea Ellada (*Fthiotida, Fokida, Evia, Viotia and Evritania*); and Zone C includes the prefectures of Anatoliki Makedonia-Thraki (*Kavala, Drama, Xanthi, Rodopi, Evros*); Ipeiros (*Arta, Preveza, Ioannina, Thesprotia*); Vorio Aigaio (*Lesvos, Chios, Samos*); Peloponissos (*Lakonia, Messinia, Korinthia, Argolida, Arkadia*); and Dytiki Ellada (*Achaia, Etoloakarnania and Ilia*).

<sup>4</sup> The "Kallikratis" Plan for the reorganisation of regional and local government was passed by parliament in May 2010. Under it, the offices of top regional officials become elected offices. The first elections are due to take place in November.

<sup>5</sup> Agourides, D. (2006), Twenty years of co-financed programmes in Greece-Evolution of administrative structures, presentation at the Brussels Open Days 2006.

<sup>6</sup> EPRC, Ex post evaluation of Cohesion Policy Programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2), Work Package 11: Management and Implementation systems for Cohesion Policy, Final Report to the European Commission (DG Regio), The Added Value of Cohesion Policy in the EU 15, Case study : Greece (Task 3), August 2009.

<sup>7</sup> International Monetary Fund (2010) 'IMF Executive Board Approves €30 Billion Stand-By Arrangement for Greece', *Press Release*, 10/187, 09.05.2010.

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Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	108.1	54.1	3235.9	93028	93086	63.5

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	32.1	32.6	33.0	35.4	34.2	33.4	35.7	37.6	
GDP(PPS) per head (NUTS3)	37.6		36.7	38.9	37.2	37.2	40.0	42.4	
Unemployment rates (NUTS2)	34.8	32.3	29.9	32.1	32.6	27.6	26.9	31.8	39.4
Unemployment rates (NUTS3)	36.8	35.6	34.2	35.9	36.7	31.9	29.9	35.8	44.8
Employment rates (NUTS2)	9.1	9.0	8.8	9.4	8.5	9.4	9.9	9.1	9.7
Employment rates (NUTS3)	10.0	9.9	9.6	9.9	9.4	10.4	10.5	9.7	

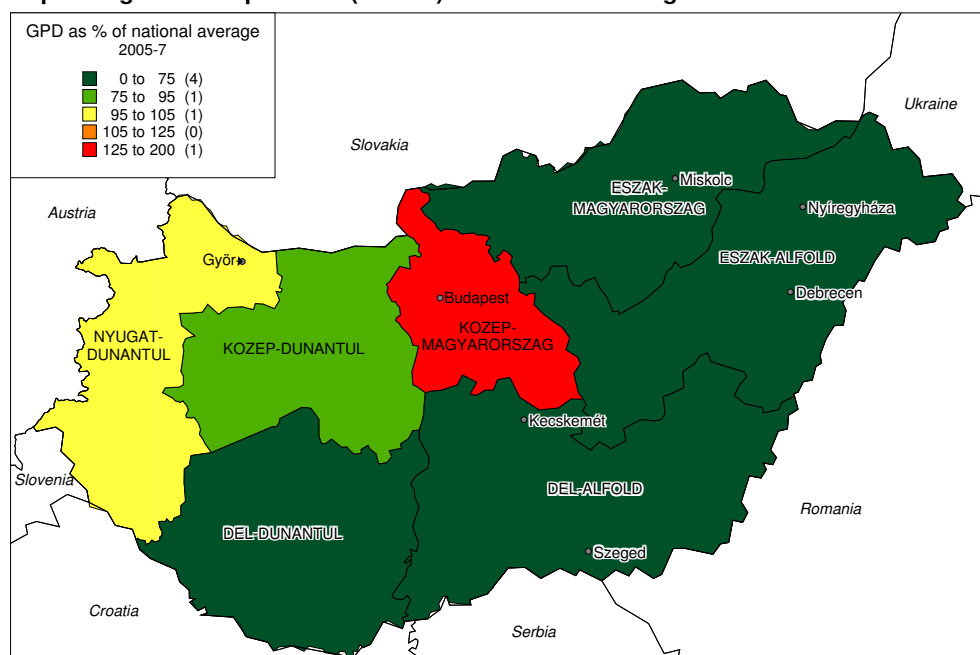
Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Hungary	9700	10500	11600	12600	13000	13700	14200	15000	15600
Min	6400	6800	7500	8000	8400	9000	9000	9400	9800
Max	14500	16100	18500	20600	20700	21900	23200	24900	25600
<b>GDP(PPS) per head NUTS 3</b>									
Hungary	9700	10500	11600	12600	13000	13700	14200	15000	15600
Min	5400	5800	6500	6900	7200	7300	7200	7400	7200
Max	18300	20800	23600	26700	26700	28400	30400	33100	33900
<b>Employment rates NUTS 2</b>									
Hungary	46.0	46.6	46.2	46.2	46.8	46.6	46.6	46.8	46.8
Min	39.6	40.7	40.7	40.9	41.7	41.2	40.2	40.8	41.1
Max	51.9	52.3	51.7	52.3	51.8	51.6	51.7	51.4	51.4
<b>Unemployment rates NUTS 2</b>									
Hungary	7.0	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4
Min	4.4	3.8	3.3	3.6	4.0	4.5	5.1	5.1	4.6
Max	11.6	10.1	8.5	8.9	9.7	9.7	10.6	11.0	12.3
<b>Unemployment rates NUTS 3</b>									
Hungary	7.0	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4
Min	3.8	3.8	3.3	3.6	3.3	3.8	4.3	4.3	3.6
Max	13.1	11.7	9.7	10.6	11.3	10.9	12.0	13.7	14.7
<b>Disposable household income (PPS) per head NUTS 2</b>									
Hungary	na	5721.1	6168.3	6758.9	7031.7	7337.1	7739.2	8080.6	8051.7
Min	na	4060.2	4551.7	4986.0	5177.7	5002.3	5495.1	6097.8	6269.3
Max	na	7560.1	8069.6	9110.2	9670.0	10328.3	11078.9	10867.6	10505.9

Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, maximum aid rates for large firms range from 25 percent to 50 percent.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.283	0.230	0.304	0.189	0.203	0.748
EfD	3.697	3.581	3.802	4.608	4.150	3.546
Social protection	20.8	20.2	21.5	21.9	21.9	
Cohesion policy	0.000	0.246	0.381	0.769	1.290	1.126

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
8642	14248		2031		386	25307

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
22395.347	3.983	314.9	85.2	0.5606	92.0

Source: Own calculations from Com decisions on commitment appropriations; Info regio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies: Domestic funding</i>	<b>2009-10</b>	<b>%of GDP</b>
• Southern Great Plain	HUF 7 521mn	0.0288
• Southern Transdanubia	HUF 6 072mn	0.0233
• Northern Great Plain	HUF 10 351mn	0.0397
• Northern Hungary	HUF 11 874mn	0.0455
• Central Transdanubia	HUF 3 725mn	0.0143
• Central Hungary	HUF 60 000mn	0.2299
• Western Transdanubia	HUF 3 850mn	0.0148
<b>TOTAL</b>	<b>HUF 103 393mn</b>	<b>0.3962</b>

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report.

## HUNGARY

### Overview

The National Spatial Development Concept (NSDC) that was adopted in 1998 defines policy guidelines and objectives for national spatial development policy. Regional development is largely based on regional strategic development concepts that are tied to the priorities of the NSDC. Different priorities under the related two-year operational programmes are funded from a variety of domestic funds. As will be shown below, there are three additional policy instruments to achieve territorial cohesion: support for so-called 'seeded' development areas, coordination of sectoral policies with a spatial impact and a few limited fiscal equalisation mechanisms. Since Hungary's accession to the EU in 2004, domestic policy has been subordinate to EU cohesion policy, which accounts for 87 percent of regional development funding in Hungary.

### Objectives

A comprehensive strategic document, the National Spatial Development Concept (NSDC) is the cornerstone of regional policy in Hungary. It was adopted by in 1998 and updated in 2005. The Concept details fundamental policy guidelines and the objectives of spatial development policy. The main long-term objectives are: 1) regional competitiveness, 2) territorial convergence, 3) sustainable territorial development and protection of heritage, 4) spatial integration into Europe and 5) decentralisation. 'Territorial convergence' as a primary task refers to territorial cohesion. Economic and social cohesion, as covered by the regional competitiveness and sustainable development objectives, are seen as preconditions for territorial cohesion. A second crucial framework document, the National Development Policy Concept (NDPC), was adopted in 2005. It sets out the objectives of Hungarian development policy. This document calls for the horizontal management of territoriality and for a territorial approach in sectoral policies. It stipulates that sectoral developments should include place-based concepts and contribute towards achieving national spatial development objectives.

### Regional problem

There are two main features of the regional problem in Hungary. First, there is a significant and growing development gap between the capital and the rest of the country as a result of Hungary's historically mono-centric structure. Second, disparities between the developing North-Western region on the one hand and North East and South Transdanubia on the other have emerged more recently due to differences in accessibility and the collapse of heavy industry and agricultural mass production after communism. These disparities reflect an Eastern-Western development slope and are growing very rapidly.

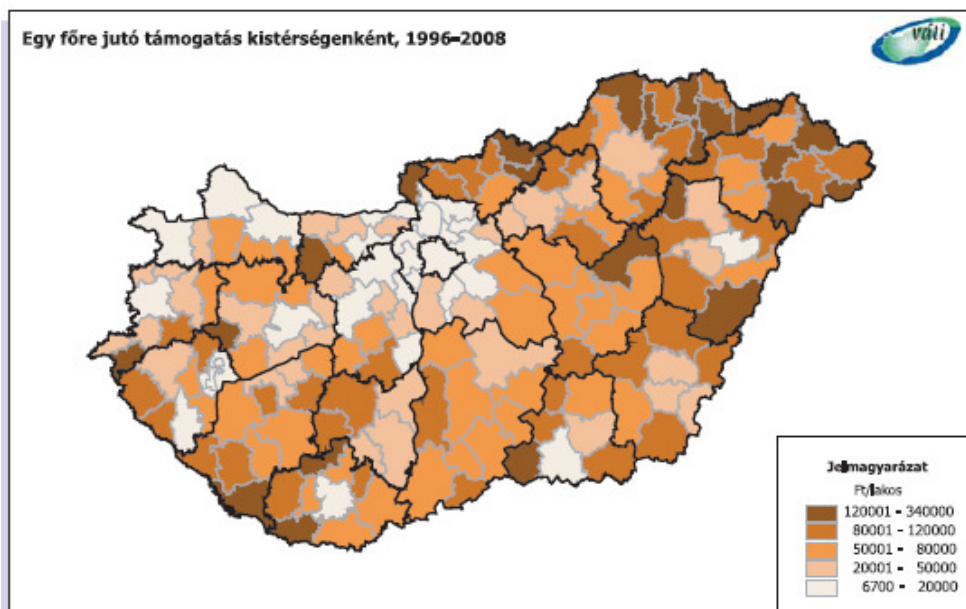
In general, differences at the level of micro-regions are far higher than those at the regional level. The least developed micro-regions include peripheral cross-border regions and regions without urban centres and with small villages. The development of these regions is also hindered by their geographical location, as they are often located in hilly regions with poor transport connections.

## Policy response

Hungary has no strong tradition of regional development policy. Only after 1989 was comprehensive legislation introduced: with the 1996 Act XXI on Spatial Development and Spatial Planning, the 1998 National Spatial Development Concept (NSDC) that was updated in 2005 and the National Development Policy Concept (NDPC) of 2005.

The single most important territorial objective in Hungary is to help all regions close the gap with Central Hungary. In particular, this implies assistance to those regions - Northern Great Plain, Southern Great Plain, Northern Hungary and Southern Transdanubia - which permanently lag behind economically and socially, to encourage intervention, to expand employment, improve accessibility and mitigate the effects of peripheral location. Emphasis is also placed on addressing disparities within regions. Thus, 107 of Hungary's 174 micro-regions have beneficiary micro-region status, a classification that is used when determining eligible applicants and the volume of subsidy under certain priorities in the regional operational programmes (see Map 2).

**Map 2: Per capita aid of micro-regions, 1996-2008**



**Legend:** HUF/person

**Source:** Evaluation of the Domestic Development Policy System, Ministry of National Development and Economy, 2009.

The central coordination of domestic regional development policy is a task of the National Spatial Development Council. Between 1996 and 2008, nine domestic development funds were available for municipalities and for the private sector, targeting different cohesion objectives and differing in terms of territorial eligibility. Difficulties connected with the availability and allocation of funds, together with the increased co-financing requirements for EU cohesion policy, led to the reform of the domestic cohesion policy in 2008. The nine funds were reorganised as domestic sources for multi-annual framework documents, so-

called operational programmes. The competencies regarding the disbursement of the available resources remain variable.

Domestic regional policy targets all regions, reflecting each region's relative development level and absorption capacity. All seven (NUTS 2) regions prepare their own medium-term strategic development concept in line with the objectives of the NSDC. The current Regional Spatial Development Operational Programmes were adopted by the Regional Development Councils in 2009, and are valid for two years, i.e. 2009-2010. These operational programmes correspond with the action plans of the EU cohesion policy programmes but they are independent - also financially - from the Regional Operational Programmes under EU cohesion policy.

The increased volume of EU financial assistance in the period 2007-2013 and the related national co-financing requirements resulted in a significant decrease of the available national resources for cohesion type development measures in Hungary. It became a critical question to utilise these resources for developments best serving the objectives of the NSDC and NDPC. Therefore, in 2007 the Ministry for National Development Policy and Economy decided to reform the domestic regional development system and to make it a programme-based framework instrument. The new system is in place since the beginning of 2010 and replaces the centrally planned system with annual allocations and separate funds for each objective. It operates similarly to the EU Cohesion policy programmes and action plans: regional development operational programmes will be developed on national as well as on regional level. The new domestically-financed Operational Programmes will be drafted by the respective Regional Development Agencies and, after public consultation, will then be approved by the Regional Development Councils. Their implementation will also be decentralised.

There are also policies that target areas with particular characteristics. While the development pole programme is implemented solely within the framework of EU cohesion policy, special domestic support is available to six so-called seeded areas. These are homogenous economically, socially or environmentally, justifying their uniform development. They comprise one or more counties or parts of them, and their development is of strategic importance. Each seeded area has recorded its objectives in strategic documents. Nationally Seeded Areas include Lake Balaton and the Danube basin, while Regionally Seeded Areas include the Main Road M8 and Budapest.

Sectoral policies must also contribute to the achievement of regional objectives to different degrees. All line ministries at the national level are required by law<sup>1</sup> to think and plan while bearing in mind regional development. The implementation of spatial development and regional objectives must be ensured by the coordinated activities of every ministry and governmental organisation concerned with sectoral development policy. This necessitates the regional harmonisation of sectoral policies. The territorial coordination of national development policy and the monitoring and evaluation of the territorial effects of different sectoral programmes is performed by the line ministries and/or their implementing bodies. The National Spatial Development Council ensures that cohesion objectives are taken into consideration in sectoral policies. The main coordination and reconciliation functions also lie with the Council.

Fiscal equalisation mechanisms are generally scarce in Hungary. The Hungarian approach is that cohesion policy is not to be combined with fiscal policy. However, there is a fund for municipalities with financial difficulties, the 'Fund for Municipalities in a Difficult Economic Situation through no Fault of Their Own' (ÖNHKI) that is administered by the Ministry for Municipalities. Moreover, economic cohesion is the objective of the so-called Entrepreneurial Zones, special economic zones defined in the Spatial Development Act of 1996, where the national and local enterprise tax regimes (and customs duties in the case of border areas) are more attractive than those outside the area.

### **Policy features**

As shown above, the Act XXI on Spatial Development and Spatial Planning and the NSDC together make up the main framework for regional policy in Hungary. The main objective of spatial development policy is defined as territorial cohesion, followed by economic cohesion, sustainable development, spatial integration and decentralisation.

Responsibility for the nine different regional development funds varied. The national level (the Ministry for National Development Policy and Economy and the National Spatial Development Council) was responsible for two centralised funds and partly for the Regional Development Fund, which was administered by the central and regional levels jointly. The competence to disburse decentralised funds gradually shifted from the traditional county level to the level of the newly established NUTS 2 regions by 2007. After the reform of the funds, disbursement competences correspond to the geographical scope of their coverage.

Each region (via its respective Regional Development Agency) has to prepare its own medium-term strategic development concept in line with the objectives of the NSDC. For the period 2007-2013 these concepts had to correspond to the EU cohesion policy cycle. The respective short-term operational programmes also have to be compiled and adopted. The programming for regional development strategies and programmes is coordinated by the Ministry for National Development and Economy and with the methodological guidance and quality control provided by the Hungarian Company for Regional Development and Town Planning (VÁTI).

Many measures are in place to coordinate national spatial development policy with EU cohesion policy. For example, the regional development strategies must correspond with the 2007-2013 EU cohesion policy cycle. Each of the seven regions has its own EU Regional Operational Programme for the whole programme period and action plans for consecutive two-year periods. These programmes are developed by the same institutions as for the domestic operational programmes and derived from the same strategic concepts. Programme implementation and monitoring is also exercised by the same regional institutional system.

### **Importance of Cohesion policy**

Since 2004, and especially after 2007, regional development in Hungary has been dominated by the programmes that are co-financed by EU cohesion policy. The increased volume of EU financial assistance in the period 2007-2013 and the related national co-



financing requirements resulted in a significant decrease of the available national resources for regional development measures in Hungary.

EU cohesion policy has had a significant effect on the national policy framework in Hungary. Domestic resources have recently been optimised and streamlined in order to focus on those strategic objectives not covered by EU programmes. Moreover, elements of this reform are inspired by EU cohesion policy (multi-annual programming, operational programmes, a logic of objectives-priorities-measures etc.), suggesting that there has been a substantial cultural and operational impact. There is also an institutional effect: Hungary's seven NUTS 2 regions were introduced mostly in order to administer EU assistance but they are now also responsible for domestic planning documents.

In all of Hungary, domestic funding for regional policy only amounts to 13 percent of EU cohesion policy funding, though with much regional variation (see Figure 8).

**Figure 8: Allocated regional development funding in Hungary - 2009-2010 (HUF million)**

Region	Domestic Funding	EU Cohesion Policy funding (including domestic co-funding)	Domestic Funds / EU Cohesion Policy Funds
Southern Great Plain	7 521	103 261	7%
Southern Transdanubia	6 072	84 370	7%
Northern Great Plain	10 351	131 288	8%
Northern Hungary	11 874	98 000	12%
Central Transdanubia	3 725	66 620	6%
Central Hungary	60 000	213 720	28%
Western Transdanubia	3 850	70 350	5%
<b>TOTAL</b>	<b>103 393</b>	<b>767 609</b>	<b>13%</b>

**Note:** The domestic funding excludes the domestic co-financing of EU Cohesion policy

Domestic development priorities are those that are not covered by EU Cohesion policy, and domestic financing is from the funds that remain after EU co-financing requirements have been fulfilled. In general, domestic regional policy in Hungary has become subordinate to EU Cohesion policy.

### Impact of the crisis

The recent economic crisis was felt throughout the country: in disadvantaged regions the existing factors causing underdevelopment were exacerbated, in more developed regions new challenges and tests emerged. The difference between the most developed and the least developed region increased. Although the contracting of the economy as a whole has led to a temporary levelling in regional differences, the developed regions (due mainly to their more skilled and flexible labor force) gained momentum more quickly. Therefore, the structural differences between the most developed and the least developed regions have deepened further.

In November 2008, an IMF Stand-by Arrangement was approved to avert a deepening of financial market pressures, amounting to €12.3 billion over 17 months. The total international support package will amount to €20 billion, including funding from the EU and

the World Bank.<sup>2</sup> Related, Hungary is one of five countries receiving a share of additional advances of €775 million (4 percent from ESF and 2 percent from the Cohesion Fund) under the simplification measures decided by the European Commission in June 2010.

Cohesion-related objectives are set for a medium to long-term timeframe, and have become even more relevant with the recent economic situation, while the objectives of cohesion policy also did not change fundamentally due to the economic crisis. The impact of the economic crisis will, however, be visible in the next 2011-2013 programmes, for which planning started in 2009: social and employment related priorities will increase in their relative volume; application and financing conditions will be eased.

The economic crisis has decreased the available resources for challenged areas because general regional policy measures now absorb more of the available funding. At the same time, the economic crisis has significantly increased the demand for fiscal equalisation mechanisms. Central budgetary support has been decreasing steadily over the past few years without any reduction in allocated tasks. As a result, municipalities had to turn to their own revenues and increase the volume of their application for EU funds and other subsidies.

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#### ENDNOTES

<sup>1</sup> Act XXI of 1996 on Spatial Development and Spatial Planning.

<sup>2</sup> International Monetary Fund (2008) 'IMF Executive Board Approves €12.3 Billion Stand-By Arrangement for Hungary', *Press Release*, 08/275, 06.11.2008.



## 13. IRELAND

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	63.7	30.9	1316.9	69797	163543	143.0

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	24.7	26.3	27.3	29.4	29.9	28.6	29.8	30.9	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	
Unemployment rates (NUTS3)	25.4	21.0	22.7	18.9	16.6	16.1	16.6	14.4	
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	
Employment rates (NUTS3)	4.9	4.8	4.5	3.9	3.2	2.3	2.6	2.2	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

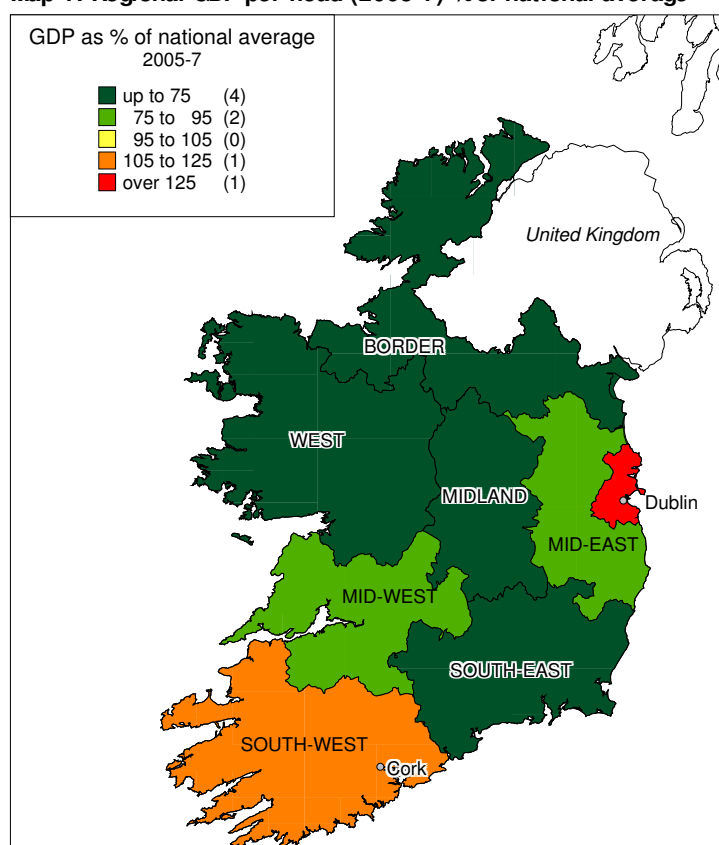
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Ireland	22400	24900	26200	28200	29200	30800	32400	34400	36900
Min	15600	17000	17700	18500	19400	21300	22100	23700	24700
Max	24800	27800	29200	31800	32800	34200	36100	38300	41400
<b>GDP(PPS) per head NUTS 3</b>									
Ireland	22400	24900	26200	28200	29200	30800	32400	34400	36900
Min	13500	15700	17000	17100	18300	19900	21100	22500	23500
Max	30600	33900	35500	38400	41000	44000	47000	49500	53900
<b>Employment rates NUTS 2</b>									
Ireland	54.6	56.9	57.6	57.4	57.4	58.0	59.3	60.2	60.8
Min	51.2	53.3	54.4	54.4	55.0	56.5	57.4	58.2	59.1
Max	55.8	58.2	58.7	58.4	58.2	58.6	60.0	61.0	61.4
<b>Unemployment rates NUTS 2</b>									
Ireland	5.8	4.3	3.9	4.4	4.7	4.5	4.3	4.4	4.6
Min	4.9	4.0	3.6	4.1	4.5	4.5	4.3	4.3	4.5
Max	6.9	5.5	4.9	5.4	5.3	4.7	4.4	4.6	4.8
<b>Unemployment rates NUTS 3</b>									
Ireland	5.8	4.3	3.9	4.4	4.7	4.5	4.3	4.4	4.6
Min	4.5	3.5	3.0	3.6	3.5	3.3	3.2	3.3	na
Max	8.8	6.2	5.9	6.5	6.3	5.7	5.8	5.4	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Ireland	10528.1	11340.4	12248.5	12416.4	12821.0	13767.0	14409.7	14958.7	15707.9
Min	9509.4	10306.7	11261.4	11022.1	11423.7	12264.2	13056.6	13489.2	14108.6
Max	10892.6	11710.9	12601.7	12856.2	13284.1	14308.2	15145.5	15600.2	16292.7

Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, maximum aid rates for large firms range from 10 percent to 30 percent.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.065	0.052	0.076	0.068	0.065	0.063
EfD	3.942	3.810	3.911	4.054	4.837	6.201
Social protection	16.7	16.9	16.9	17.0	17.6	
Cohesion policy	0.432	0.563	0.328	0.269	1.291	1.272

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
			458	293	151	901

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
812.508	0.079	29.6	36.8	0.1322	42.5

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	Annual budget	% of 2009 GDP
• Regional aid (industry and services) - 2007-13	€85 mn	0.0520
• Regional aid (tourism) - 2008-13	€20mn	0.0122
• Funding for <i>Údarás na Gaeltachta</i>	€30.4mn (2009)	0.0183

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report.

## **IRELAND**

### **Overview**

Ireland is a unitary State and, in the absence of any traditional form of regional autonomy, does not have any explicit regional policy. Regional policy in Ireland is largely synonymous with economic development policy. The lack of a dedicated regional policy does not, however, mean that there is a lack of commitment to economic, social and territorial cohesion. From a position of virtual abandonment of regional policy during the 1980s, Ireland has moved back to a situation where there is widespread acknowledgement of the importance of balanced regional development and interest has grown in its effective implementation. This understanding now extends to acknowledging the spatial dimension to economic and social development. Since the reform of Structural Funds in the 1980s, EU Cohesion policy support and Irish domestic policy has been managed as part of an integrated, coherent policy framework. However, linked to a substantial reduction in the volume of Cohesion policy funding, for the 2007-13 period domestic and EU funds are managed separately. Strategic planning documents for this period retained a strong focus on balanced regional development. However, the economic crisis has led to a substantial drop in funding for key interventions and a shift in policy focus to the promotion of overall economic growth.<sup>1</sup>

### **Objectives**

The country's current commitment to balanced regional development is set out in the National Development Plan (NDP) 2007-13, which, in contrast to the 2000-06 period, is wholly funded through domestic resources, and in the National Spatial Strategy (NSS). The NDP had an initial budget of €184 billion. 'Balanced regional development, with regions achieving their full potential', is one of the high level objectives that guide the investment priorities of the NDP, as a 'horizontal theme'. One of the most notable features of the NSS is its aim of focussing investment and growth potential around a network of nine competitive 'gateways' and accompanying hubs. While regional development is a focus for both of these major strategic planning documents, dedicated domestic financial resources for regional development are limited, and have become much more restricted as a result of the crisis.

### **Regional problem**

In terms of regional development disparities within the country, data on regional value-added per capita reveals a considerable divergence between regions, most notably between the Dublin region and the Midland and Western Regions. For instance, in 2005, gross value added (GVA) per person in the Dublin region was 140.9 percent of the national average, while the figure of the Midland region was 66.5 percent.<sup>2</sup> Linked to this pattern of development are differing regional development challenges. On the one hand, competition for high-value added investment, developing innovation and R&D activities, tackling economic centralisation, congestion, labour shortages, and urban sprawl are concerns in the Greater Dublin region. On the other hand, the Border Midlands and West regions are perceived to be lacking the 'critical mass' of resources to effectively drive development<sup>3</sup> and address economic weaknesses, such as a limited industrial base, a weak urban

structure, deficiencies in infrastructure, and a ‘brain drain’.<sup>4</sup> The potential for increased rural-urban development disparities is also an area of on-going concern.

### Policy response

In Ireland, narrow, domestically-funded, regional economic development policies are not generally pursued. While examples of distinct regional policies are limited, until recently, a trend in Irish public policy has been the establishment of specialist agencies to help address specific development concerns. In this context, the following examples can be highlighted as narrow regional/place-specific interventions.

The nearest example to a regionally/locally focussed policy approach is the work of *Údarás na Gaeltachta*, which is the regional authority responsible for the economic, social and cultural development of the *Gaeltacht* (areas where Irish is used as a community language). As well as a cultural role promoting the Gaelic language, *Údarás* is responsible for encouraging investment in the *Gaeltacht* through a range of incentives for new enterprises and for existing businesses. Financial incentives include: feasibility study grants; research and development grants; capital grants; employment grants; training grants; equity investment; and marketing schemes. In a number of cases the award rates are regionally differentiated, in line with the regional aid guidelines. *Shannon Development* and the *Western Development Commission* (WDC) fulfil roles that are similar to some of those undertaken by *Údarás*, but both agencies are more narrowly focused on regional economic development, as opposed to having a strong cultural remit. For instance, the WDC operates a development fund that is supported through the 2007-13 NDP, with an initial, total budget of €28 million. However, the economic crisis is having a considerable impact on the activities of *Údarás*, WDC and *Shannon Development*.<sup>5</sup> A drop in exchequer funding linked to government expenditure cuts is expected to negatively impact on the impact and role that these agencies can expect to play. For example, the exchequer funding granted to *Údarás* for 2009 was €30.4 million compared to €37.6m in 2008.<sup>6</sup>

As part of Ireland’s broad industrial policy, regionally-differentiated award rates are applied to grant schemes. In comparison to the 2000-06 period, levels of regional support have been greatly reduced for the 2007-13 period, with aid area population coverage down from 100 percent to 50 percent of the national population (see Figure 8).

**Figure 8: Grant aid intensities (GGE%) for new industrial investment**

Period of eligibility	NUTS regions	Large firms	Medium firms	Small firms
2007-13	BMW 2007-10	30	40	50
	BMW 2011-2013	15	25	35
2007-13	South-East plus small islands in S-W	10	20	30
2007-08	Mid-West, Kerry, Cork URA	10	20	30
2009-13	Mid-West, Kerry, Cork URA	0	20	30
2007-08	Cork (City & County), not Cork URA	10	20	30
2009-13	Cork (City & County), not Cork URA	0	0	0

**Source:** Compiled from European Commission, State aid N 374/2006 - Ireland: Regional aid map 2007-2013, OJEC No C292, 1 December 2006

**Note:** In Mid-West, Kerry, Cork URA, the 2009-13 SME maxima are not available for investment projects of more than €25 million



Aid is channelled through enterprise agencies. The Industrial Development Agency-Ireland (IDA-Ireland) provides financial assistance to companies wishing to locate in Ireland or expand their existing operations in the country. The main eligibility criteria include the quality of employment created and location. Enterprise Ireland and also *Údarás* operate on a similar basis, offering a number of categories of support related to exploring new opportunities, company expansion, and an SME fund for productivity improvements. The annual budget for regional aid over the 2007-13 period is €85 million for industry and services and €20 million for tourism.<sup>7</sup>

More generally, as all policies are supposed to take into account the objectives set out in the NSS and NDP, sectoral policies are expected to have a strong regional development component. The NDP and NSS serve as a means of not just informing decisions on policy, but also as a mechanism through which to coordinate policy instruments and decisions. Two policies with the greatest impact on regional development are industrial/economic development policy and transport policy.

Some of the regional components of Ireland's economic development policies have already been highlighted. For instance, there has been investment in wider communications infrastructure, business and technology parks, and incubator units. In addition, IDA-Ireland has worked to develop 'strategic' sites in 'gateway' locations and world-leading clusters of knowledge-based activities. 'Infrastructure-rich' strategic sites for utility-intensive industries have also been developed.<sup>8</sup> Other key interventions involve capacity building for R&D and innovation. Part of IDA-Ireland's core activities are aimed at building links between international businesses and third-level education and research centres to ensure the necessary skills and research and capabilities are in place. Related, Enterprise Ireland works with local industry and research organisations to stimulate high potential start-ups through a variety of knowledge sharing and networking initiatives. Other activities include providing access to finance for the promotion of business development and innovation, through venture and seed capital. Across each of these areas of intervention, and in line with the objective of balanced regional development, the main development agencies are required to achieve the best possible regional balance in their investments.<sup>9</sup>

Efforts to improve overall competitiveness in the regions and support the business environment continue to involve a strong focus on investment in 'hard' infrastructure. Related, a pillar of the 2007-2013 NDP continues to be infrastructure investment. Almost €55 billion was allocated to tackling infrastructural deficits, with the aims of linking regions together and providing each region with the 'critical infrastructure needed to develop the self-sustaining growth that will ensure balanced regional development'.<sup>10</sup> However, funding for transport investment has been particularly hard hit by the economic crisis. NDP capital expenditure is expected to decrease by almost 20 percent in 2009.

Fiscal equalisation measures are applied at the county level. The current system for funding the councils is extremely centralised. The councils' capital expenditure is financed largely by State grants, with the balance being funded from development levies and borrowings and own internal resources and property sales. A local government fund (LGF) attempts to provide higher allocations to local authorities where estimated needs are greater than estimated resources. A detailed computerised model called the Needs and Resources Model,

which has been used since 2000, undertakes this task based on returns from local authorities.<sup>11</sup>

### **Policy features**

As previously noted, the country's current commitment to balanced regional development is set out in the National Development Plan (NDP) 2007-13 and in the National Spatial Strategy (NSS). The overall objective of 'balanced regional development, with regions achieving their full potential' is reflected in both of these documents. Such an objective reflects the aim of cohesion and increased convergence between the levels of economic development enjoyed in the regions around Dublin and the 'lagging regions', but also addresses the aim of boosting overall national competitiveness by expanding economic development potential beyond 'hotspots' such as Dublin. However, the overall objective of securing economic growth is now the primary policy focus.<sup>12</sup>

No single government department has overall responsibility for a distinct 'regional policy'. Instead, a range of departments are involved in various regional development initiatives and strategies. At the national level, the Department for Enterprise, Trade and Employment is the main government department involved in the development and delivery of enterprise policy, which has a regional component. The Department of Finance has a coordination role for the NDP and EU Structural Funds. The Department for the Environment, Heritage and Local Government (DEHLG) also has a role in regional and spatial development, as it is responsible for the management and implementation of the NSS. Government enterprise development agencies also play a key role in the delivery of policy, including Enterprise Ireland, IDA-Ireland, Science Foundation Ireland, Shannon Development and *Údarás na Gaeltachta*.

Related, a core feature of the management and implementation of domestic policies is that a highly integrated policy approach is adopted. Multi-annual, multi-sectoral programming lies at the heart of policymaking, necessitating a coordinated policy approach across government departments, levels of government and partner organisations. In order to improve and maximise coordination in future, a review is due to be conducted by Forfás (a national policy advisory body for enterprise and science) to ensure that there is maximum coherence and collaboration between the enterprise development agencies (Enterprise Ireland, IDA-Ireland, Science Foundation Ireland, Shannon Development and *Údarás na Gaeltachta*) and to identify any gaps in support.

### **Importance of Cohesion policy**

Until the 2007-13 programming period, a highly integrated development policy approach to domestic and EU regional economic development policy was applied in Ireland. At that time Structural Funds were available throughout Ireland, [as all of the country was eligible for Objective 1 support](#). Thus, until 2007-13, EU strategic objectives and funding had a very strong impact on policy development, resourcing and delivery. By necessity, EU and domestic objectives had to be aligned, EU and domestic funding were programmed jointly, and governance structures developed taking into account Cohesion policy requirements, e.g. on multi-annual programming, partnership working, greater regionalisation and monitoring and evaluation.

For 2007-13, the country experienced a substantial reduction of Cohesion policy funding. EU budget transfers under the Regional Competitiveness and Employment Objective total €750 million over seven years,<sup>13</sup> compared to €184 billion allocated to the NDP. With this in mind, the NSRF and accompanying Operational Programmes (OPs) have a much more narrow policy focus, which aim at maximising the impact of reduced funding by focussing on a more limited range of interventions and rationalising the administrative burden of working with the Funds.

It is important to note that EU and domestic institutional and policy-making structures interact in different ways, resulting in policy and institutional shifts in some areas and resistance to change in others. For instance, policy delivery remained relatively centralised, despite the adoption of regional OPs. Despite being responsible for the day-to-day management of the regional OPs, the country's two Regional Assemblies are not responsible for the allocation of financial resources, which continues to be managed by central government departments. Partnership working in EU programmes built on existing traditions in the country. More recently, the adoption of separate EU and domestic development programmes means that the impact of EU policy is less direct than in the past, although the 'legacies' of EU influence are still apparent, e.g. in the strength of domestic, multi-annual programming.

### **Impact of the crisis**

The global economic crisis, in tandem with a 'home-grown' downturn,<sup>14</sup> has had a very severe impact across the whole of Ireland, including the traditionally more prosperous regions in the South and East. The South and East saw considerable job losses, downturns in construction and the housing market and the loss of investment, even in 'prized' R&D facilities in the capital city region. At a local-level, the loss of large-scale manufacturing plants, such as Dell in Limerick, with the loss of 1900 jobs, and Waterford Crystal in Waterford, is having a pronounced impact on local communities and economies. However, more generally, lagging regions have also been severely affected and, crucially, are expected to take longer to recover due to a weaker infrastructure, a high proportion of remote and rural areas and a less diversified economic structure.<sup>15</sup> The Mid-West region has been particularly hard hit by job losses in manufacturing. More rural areas also appear to be more vulnerable to the downturn in construction.

In policy terms, the economic crisis has negatively impacted on the priority given to cohesion objectives. The government faces a serious fiscal challenge due to the significant gap between expenditure and revenue. For 2009, the Exchequer deficit was forecast to be in the region of €26billion in 2009.<sup>16</sup> As a result, the government has undertaken numerous and substantial cuts in spending. For example, NDP capital expenditure decreased by around 20 percent in 2009.<sup>17</sup> In addition, a regionally-oriented Gateway Innovation Fund, which was piloted in 2007 and was to be linked to the country's National Spatial Strategy, was suspended. While, the government has continued to emphasise the importance of R&D in the economy as a whole and also in the regions, much of this type of investment is being delayed or deferred as companies are reluctant to take risks and public finances are limited.

A major drop in Exchequer funding, linked to government expenditure cuts, is also expected to negatively impact on the role that development agencies, such as Shannon Development and *Údarás na Gaeltachta*, can expect to play. For example, as already mentioned, the Exchequer funding granted to *Údarás* for 2009 was €30.4 million compared to €37.6m in 2008.<sup>18</sup> In addition, at present, the future of the agencies is uncertain, as the government is considering reallocating responsibilities and merging some organisations, based on the recommendations of a review of Public Service Numbers and Expenditure Programmes, published in July 2009. Amongst a wide range of proposed changes are recommendations to: merge the regional offices and shared services of Enterprise Ireland, IDA-Ireland and FÁS (the employment agency); streamline all support of Irish enterprises and marketing functions in Enterprise Ireland (in this context, Shannon Development's business functions should transfer to Enterprise Ireland and IDA-Ireland 'as appropriate'; and the Western Development Commission should be abolished); cut the number of local authorities from 34 to 22; and close down the Department of Community, Rural and Gaeltacht Affairs.<sup>19</sup>

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#### ENDNOTES

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<sup>3</sup> Department of Finance, (2007) *National Strategic Reference Framework for Ireland*, Department of Finance: Dublin 8 June, p. 60.

<sup>4</sup> BMW Regional Assembly, *Submission to The Department of Finance on the NDP 2007-2013*, April, 2006, p. 3.

<sup>5</sup> Hennessy, N. (2010) 'Údarás Struggles to hit jobs targets' *The Irish Examiner*, Tuesday, January 26, 2010 <http://www.irishexaminer.ie/archives/2010/0126/business/udaras-struggles-to-hit-job-targets-110582.html>.

<sup>6</sup> Hennessy, N. (2010) 'Údarás Struggles to hit jobs targets' *The Irish Examiner*, Tuesday, January 26, 2010 <http://www.irishexaminer.ie/archives/2010/0126/business/udaras-struggles-to-hit-job-targets-110582.html>.

<sup>7</sup> State aid references XR 12/07 and XR 18/08.

<sup>8</sup> IDA-Ireland, *IDA-Ireland Annual Report 2005*, Dublin: IDA-Ireland, (2005).

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<sup>15</sup> Dillion, E.J. and Hennessy, T. Behan, J. and Meredith, D. (2009) An Analysis of the Rural Labour Market in Ireland, Teagasc Report.

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<sup>17</sup> Kerr, A (2009) 'Road-building projects bear the brunt of massive cuts', Irish Independent, April 08 2009 <http://www.independent.ie/national-news/budget-2009/news/roadbuilding-projects-bear-the-brunt-of-massive-cuts-1701977.html>.

<sup>18</sup> Hennessy, N. (2010) 'Údarás Struggles to hit jobs targets' *The Irish Examiner*, Tuesday, January 26, 2010 <http://www.irishexaminer.ie/archives/2010/0126/business/udaras-struggles-to-hit-job-targets-110582.html>.

<sup>19</sup> Department of Enterprise, Trade and Innovation (2009) Report of the Special Group on Public Service Numbers and Expenditure Programmes <http://www.deti.ie/publications/corporate/2009/volume1.pdf>.

## 14. ITALY

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
59.375	201.2	31.4	2653.1	301336	1520870	103.3

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	24.1		24.3	24.2	24.3	24.2	23.8	23.4	
GDP(PPS) per head (NUTS3)	24.3		26.0	25.6	25.5	25.5	24.8	24.6	
Unemployment rates (NUTS2)	68.9	74.4	78.3	77.5	78.0	61.8	59.9	57.1	56.7
Unemployment rates (NUTS3)	74.1	79.6	83.9	82.7	83.5	66.6	63.3	61.6	61.0
Employment rates (NUTS2)	17.4	17.5	17.1	16.7	17.0	15.6	16.0	16.0	16.3
Employment rates (NUTS3)	18.8	18.9	18.6	18.2	18.5	16.8	17.3	23.7	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

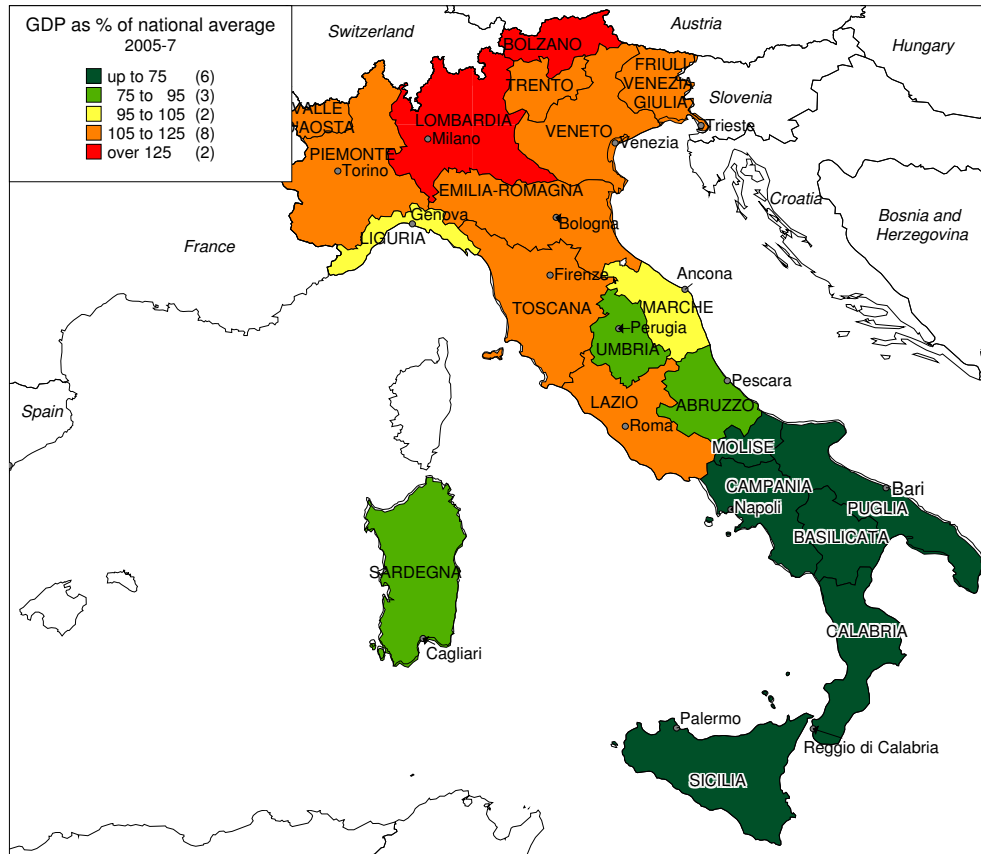
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Italy	20900	22300	23300	22900	22900	23100	23600	24600	25800
Min	13000	13700	14600	14300	14500	14500	15100	15700	16400
Max	28000	29600	31000	30600	30600	30400	31000	32200	33600
<b>GDP(PPS) per head NUTS 3</b>									
Italy	20900	22300	23300	22900	22900	23100	23600	24600	25800
Min	9600	10500	11500	11000	11100	11100	11900	12800	14000
Max	33000	35100	36900	36000	36000	36200	36400	36900	37900
<b>Employment rates NUTS 2</b>									
Italy	42.6	43.2	43.9	44.4	44.9	45.5	45.3	45.8	45.9
Min	31.7	32.3	33.3	34.1	34.0	34.8	35.3	35.9	35.4
Max	56.2	57.0	57.7	58.5	58.8	57.5	57.2	57.5	57.3
<b>Unemployment rates NUTS 2</b>									
Italy	11.4	10.6	9.5	9.0	8.6	8.0	7.7	6.8	6.1
Min	2.5	2.1	1.9	1.9	2.0	2.7	2.8	2.6	2.6
Max	32.0	30.3	25.7	24.6	23.4	21.6	19.4	16.7	16.3
<b>Unemployment rates NUTS 3</b>									
Italy	11.4	10.6	9.5	9.0	8.6	8.0	7.7	6.8	6.1
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Italy	13242.1	13835.3	14278.3	14377.5	14542.3	14675.5	15001.4	15943.6	16054.8
Min	8945.4	9291.2	9759.9	9881.7	10186.2	10276.6	10585.3	10954.2	11343.8
Max	17060.8	17867.1	18249.7	18220.7	18325.1	18209.6	18452.0	19235.3	20113.6

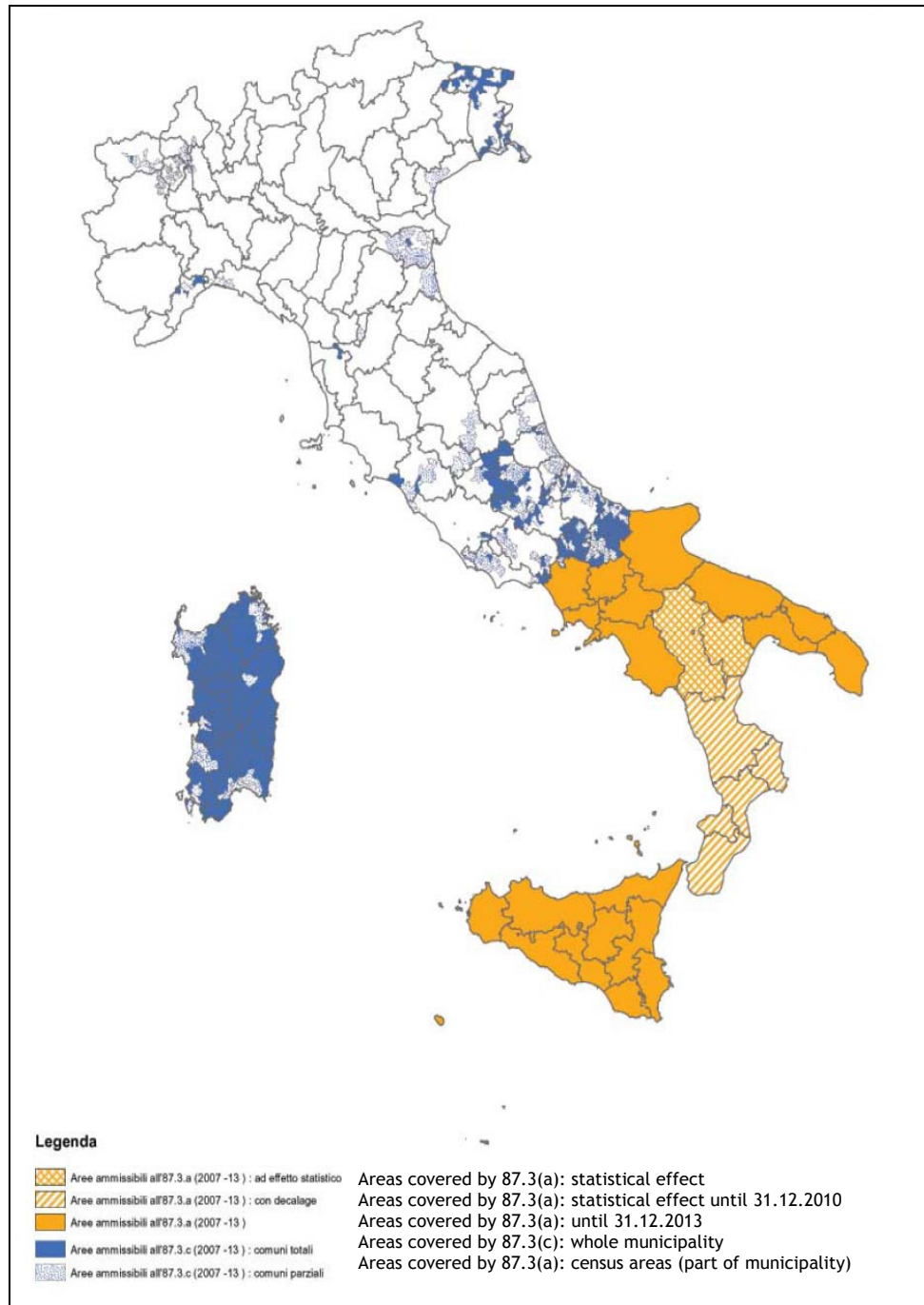
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Map 2: Regional aid map 2007-13**



**Source:** Ministry of Economy and Finance, Department for Development Policies.



**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.112	0.080	0.080	0.071	0.045	0.052
<b>EfD</b>	3.414	3.187	3.217	4.227	3.352	3.060
<b>Social protection</b>	24.9	25.1	25.4	25.6	25.5	
<b>Cohesion policy</b>	0.340	0.325	0.303	0.305	0.288	0.235

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
	21211	430	972	5353	846	28812

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
25582.830	0.270	63.9	47.9	0.2776	67.1

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• FAS (domestic regional policy) 2007-13 annual average	€7498mn	0.5956

**Source:** National expert's report and Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2010) *Rapporto Annuale 2009 sugli interventi delle aree sottoutilizzate del Dipartimento per lo Sviluppo e la Coesione Economica*, Rome, July 2010.

## ITALY

### Overview

Regional policy has been an important component of Italian public policy since the Second World War. The long-standing underdevelopment of the *Mezzogiorno* (the South), which dates back to Italian unification, made this a necessity, given the Constitutional provision that the State should intervene with additional resources and special interventions to promote economic development, social cohesion and solidarity and favour the effective exercise of individual rights in given territories (Article 119)<sup>1</sup>. Initially, regional policy took the form of “special intervention” within the *Mezzogiorno*, mainly through infrastructure support and regional aid administered by an *ad hoc* body, the *Cassa/Agenzia per il Mezzogiorno*. However, over time, the policy focus and *modus operandi* changed. Partly under the influence of Cohesion policy and partly because of domestic pressures relating to the perceived ineffectiveness of special intervention, an increasingly EU-oriented and programme-based policy was introduced in the early-1990s, targeting underdeveloped areas *throughout* the country and administered via the ordinary administration of the State. Thus, over the 1994-99 and 2000-06 periods, domestic regional policy became very closely linked to Cohesion policy; indeed, especially in the southern regions, they were synonymous. Outside the South, the links between domestic and Cohesion policy were enhanced by the considerable alignment between the regional aid and Cohesion policy maps, a goal explicitly pursued by Italian policy-makers. Most recently, the need to produce a national strategic document for 2007-13, combined with more targeted EU support<sup>2</sup> and the (then) government’s view that a strong domestic regional policy should continue, led to a new “unitary regional policy” in 2007. This combined EU and domestic regional policy budgets (€125 billion over the 2007-13 period), adopted the EU’s seven-year financial planning framework and monitoring and evaluation procedures, and developed a country-wide, programme-based approach. Funding was largely concentrated on the EU Convergence regions and the traditional *Mezzogiorno*.

### Objectives

The objectives of regional policy are found in the National Strategic Document, NSD (i.e. the NSRF in the EU Cohesion policy lexicon).<sup>3</sup> In Italy, this document does not just represent a framework for Cohesion policy but for unitary regional policy as a whole. Its objectives are: (i) to develop circuits of knowledge; (ii) to enhance quality of life, security and social inclusion within the territories; (iii) to strengthen production chains, services and competition; and (iv) to internationalise and modernise. All three aspects of cohesion are pursued: economic cohesion, through competitiveness-aimed interventions; social cohesion, through measures to enhance human capital and social inclusion; and, territorial cohesion, given that the means through which the above objectives are followed through differentiate between South and the Centre-North. These objectives have remained unaltered following the recent economic crisis; at the same time however, in response to the crisis some of the resources of the FAS fund which had been allocated to the NSD have been taken out of this document and reallocated to three funds in support of goals that are considered priority for the re-launch of the Italian economy, notably the funding of

strategic infrastructures and measures in support of the employment emergency (as discussed below in more detail).<sup>4</sup>

### **Regional problem**

The regional problem continues to be represented by the duality between a wealthy and developed Centre-North and a lagging *Mezzogiorno*. That this dualism has not been resolved is demonstrated by the fact that, from 2002 to 2008, GDP of the southern regions grew less than that of the Centre-North. This trend has reverted in 2009, because of the more marked impact on GDP growth that the crisis has had in the Centre-North, due to the higher openness of the Centre-Northern economy to international trade.<sup>5</sup> Per-capita GDP in the *Mezzogiorno* continues to be consistently lower than the national and EU averages.<sup>6</sup> There has been a slight convergence trend during the 2002-2008 period, but this is largely due to demographic shifts, with a population increase in the North, attracting migration from both, the South of Italy and abroad. The South also experiences lower levels of productivity and poorer employment dynamics. The employment rate of the working-age population is almost 20 percentage points below that of the Centre-North (although almost no region in Italy actually reaches the 70 percent target set in the Lisbon agenda).<sup>7</sup> However, perceptions of the problem have evolved in recent years. It is increasingly acknowledged that the *Mezzogiorno* is not a monolith but consists of a varied and complex set of situations, while the country as a whole has stagnated. The recent recession has exacerbated this trend. In 2008, national GDP began to fall. It declined by 1 percentage point compared to 2007, a drop that was higher in the South than in other areas.<sup>8</sup> During the past year, GDP dropped even more sharply, by 5 percent, marking the highest decrease since World War II.<sup>9</sup>

### **Policy response**

A new comprehensive strategy for regional development was launched in 2007 in the form of the National Strategic Document 2007-13, NSD. The new 'unitary' regional policy (*politica regionale unitaria*) is a "broad" regional policy with both EU and domestic dimensions. The domestic side is represented by the "Implementation Programmes" funded by the FAS, the "Fund for the Underutilised Areas" (*Fondo per le Aree Sottoutilizzate*). This was established in 2003 to give programme and financial unity to those additional interventions implemented in line with the goals of Article 119 of the Constitution. 85 percent of the FAS is reserved for the *Mezzogiorno*. This new, 'unitary' approach differs from previous domestic regional policy because of the programming approach adopted, whereby domestic and EU funds converge towards the same strategic goals; the adoption of the Cohesion policy seven-year timetable also for the domestic FAS; and the introduction of monitoring and evaluation requirements that are integrated with those of Cohesion policy (through a 'unitary monitoring system' and joint programme evaluation plans). These are all aspects that did not exist prior to 2007, when domestic regional policy was implemented without a longer-term overarching strategic framework, and with different timetables, and monitoring and evaluation procedures than Cohesion policy.

The domestic implementation programmes follow the same structure and approach as the parallel Cohesion policy funded operational programmes (OPs) and are implemented

through a range of instruments, including Institutional Framework Programme Agreements, *Accordi di Programma Quadro* (region-state and interregional) and direct measures (i.e. measures implemented wholly under the responsibility of the regional authority, as with some regional aid schemes). Each regional/multi-regional FAS implementation programme and the related Cohesion policy programme are coordinated through a DUP (*Documento unitario di programmazione*, single programme document). The procedures for the approval of the FAS Implementation Programmes have been somewhat drawn out, not least due to the financial uncertainties which have accompanied the FAS following a 2008 change of government and the recent economic crisis. They involve the appraisal and approval of the programmes by the national coordinating administration for regional policy (the Department for Development and Economic Cohesion of the Ministry of Economic Development - MISE-DPS) and subsequent confirmation by the CIPE (the Inter-Ministerial Committee for Economic Programming), followed by the adoption by the MISE-DPS of the act through which the State assumes the obligation for the annual quotas of FAS resources, as indicated in the financial plans of the implementation programmes. At present, all regions have drafted their implementation programmes, but only ten have been confirmed by the CIPE (CIPE resolution no. 1/2009) and none has yet been launched, pending the transfer of resources.

With respect to “narrow regional policy”, the regional authorities and some central state administrations implement a range of regional and non regional aid schemes. As regards regional aid, for the current period the overall population coverage under the regional aid map has been reduced from 43.6 to 34.1 percent and Article 87(3)(c) coverage from 10 to 3.9 percent, with the Trentino Alto Adige region and Lombardy losing their designated status. Regarding measures for specific areas, support for the *Zone Franche Urbane* (deprived urban zones) has been recently introduced, providing tax concessions for urban renewal projects in deprived urban areas in 22 municipalities selected through a lengthy process involving regional authorities and the national coordinating administration (MISE). The selected zones hold around 310,000 people in 11 regions (only 3 in the Centre-North).

Fiscal equalisation is provided by a new instrument under Constitutional Law no. 3/2001, which introduced provisions for fiscal federalism and an equalisation fund. This aims to compensate for any imbalances in fiscal revenues (Article 119(3)). The overarching goal is to guarantee that, in all the regions, the same standards are maintained in the provision of specific services, irrespective of fiscal returns. This provision is, however, not yet operational: an implementation law for Article 119 was only passed in May 2009 (Law 42 of 5 May 2009), which included the institution of the State equalisation fund in favour of regions where fiscal capacity per inhabitant is low. However, the necessary implementing provisions are still pending. The law nevertheless sets the criteria according to which regions can access transfers from the fund, notably: if the fiscal capacity per inhabitant in their territory is lower than the legally-established parameters established by law and if the costs necessary for the provision of the obligatory services are higher than the parameters defined by law. The transferred amounts are allocated without restrictions as to their use.

### **Policy features**

As already noted, the commitment to territorially-balanced economic and social development has been enshrined in the Italian Constitution since 1947 (Article 119); this commitment has been reiterated in the Constitutional reform of 2001 which has introduced - in principle at least - a system of fiscal federalism.

Italy now implements a “unitary regional policy” under a seven-year programming framework and monitoring and evaluation procedures specified in the National Strategic Document. As discussed above, the policy aims to achieve all three strands of cohesion - economic, social and territorial - and is heavily concentrated on the *Mezzogiorno* regions.

Responsibility for the coordination and supervision of the unitary regional policy falls within the national Ministry for Economic Development which has a dedicated Department for Development and Economic Cohesion (MISE-DPS). Within this Department, two Directorate Generals are in charge of the domestic and Cohesion policy strands of the unitary policy respectively, whilst a separate Unit coordinates related monitoring and evaluation. Policy implementation is largely delegated to the regional authorities. Policy coordination is ensured through the coordination activities of the MISE-DPS and through an inter-institutional forum, the State-Region Conference, established in 1983 to promote dialogue between regions and central State on issues affecting the regions.

### **Importance of Cohesion policy**

Italian economic policy has always included objectives for the development of more backward areas. Over time, EU Cohesion policy approach has altered the strategic direction of this policy: from its original focus on the *Mezzogiorno* to a wider commitment to territorial balance in development levels across the entire national territory. With the 2007-13 NSD, domestic regional policy has converged fully with EU Cohesion policy, so much so that the two strands of policy now feature within the same system of priorities and objectives. The spheres of action of the domestic strand are in some instances the same as those for Cohesion policy, thus boosting their intensity; while, in other instances, they may be different, designed to foster the territorial or thematic integration of the action. The main novelty in respect of the 2007-13 period is that, for the first time, domestic policy is also implemented through multiannual programmes.

The resources devoted to explicit regional policy for the 2007-13 period were outlined in the NSD 2007-13, set out in Figure 8. However, as discussed further below, they have since been reduced in response to the economic crisis with, on the one hand, cuts to the planned resources, and, on the other, reallocations of the FAS funds to interventions which sit outwith the NSD. This casts considerable doubt on the sustainability of the new unitary regional policy for the reasons that will be henceforth illustrated.

**Figure 8: Total resources originally allocated to the unitary regional policy 2007-13 (€ billion), ex CIPE deliberation no. 166/2007<sup>10</sup>**

	Structural Funds	National Cofinancing	FAS (domestic regional policy)	Total
<b>Total NSD 2007-13</b>	27,965.315	31,933.64	63,273	123,171.96
<b>Centre North</b>	4,972.767	7,622.592	9,490.95	22,086.31
<b>Mezzogiorno</b>	22,992.548	24,311.049	53,782.05	101,085.65

**Source:** Own elaboration based on CIPE deliberation no. 166/2007, p.23.

From an implementation point of view, and consistent with the guiding concept of creating a ‘unitary policy’, the NSD has introduced a unitary monitoring system (not yet fully operational), which should provide an integrated overview of progress and achievements. This has involved the development of a “Projects Management System”, i.e. a supporting tool for the management of programmes, the implementation of measures and, more generally, monitoring procedures. To create an integrated overview of policy outcomes, unitary evaluation plans have been drafted in each region for the evaluation of all actions implemented under the unitary regional policy, irrespective of the source of funding.

### Impact of the crisis

The recent recession has had a considerable impact on both the perception of the regional problem and the policy response. The fall in world trade and in investment activity caused by the crisis has had a marked impact on GDP in Italy, where the recession had already begun in 2008. Initially, the crisis seems to impact mainly on the more developed areas Centre-North, but it has gradually worked its way south, affecting, especially from 2009, also the *Mezzogiorno*. Longer term, the effects of the recession are expected to be particularly severe in the *Mezzogiorno* because of the structural weakness of its entrepreneurial base and its slower and still ongoing restructuring and modernisation processes. The intensification of the fragility of the *Mezzogiorno* economy due to the crisis suggests that *Mezzogiorno* firms may be less able to compete in international markets when global trade and international demand pick-up again.<sup>11</sup> At the same time, the crisis has also shown that the economy of the most developed parts of Italy is also vulnerable and needs policy attention, a fact that has been evident for a number of years now.

The government has introduced a number of measures to counter the crisis in an economic recovery package informed by the principle of budget neutrality. As far as the FAS fund is concerned, this has entailed, on the one hand, cuts to the original allocation for the 2007-13 period (€63,237 million) of €10,786.2 million and, on the other hand, reallocations from the NSD to three strategic funds, to concentrate resources on objectives deemed a priority for the re-launch of the Italian economy: the development of strategic infrastructures (in particular mobility networks and support for productive activities) and employment. These are: (i) a newly established Social Fund for employment and training, the resources of which are destined to finance the social safety net and training; (ii) an Infrastructure Fund for actions aimed at boosting national infrastructure networks (including IT and energy networks, the implementation of safety maintenance work in schools, environmental regeneration activities, prison building, museum and archaeological infrastructure, technological innovation and strategic infrastructures for mobility, such as railways investments); (iii) a nation-wide ‘Strategic Fund’ located within the Presidency of Ministers

to support the real economy, competitiveness and development. These three funds operate outwith the original strategy of the NSD, but maintain the commitment in principle of the 85 percent earmarking for the Mezzogiorno.<sup>12</sup> As can be seen, however, not all of these measures have a specific regional development/growth orientation.

As a result of these cuts and reallocations, the current attribution of the FAS fund for the 2007-13 period is of €52,486 million, subdivided as follows:

- €25,459 million for national administrations, i.e. the three above quoted funds and some pre-allocations for specific measures (which sit outwith the National Strategic Framework);<sup>13</sup> and
- €27,027 million for the regional FAS programmes, the two interregional programmes (renewable energies and cultural attractors) and the project 'service target goals'.

As a result, all national Mezzogiorno FAS programmes foreseen by the NSD have been suppressed, whilst the regional programmes have been maintained (with marginal cuts of around 6 percent of the originally planned resources), as have the two interregional Mezzogiorno programmes for renewable energies and cultural attractors and the performance reserve related to the 'service target goals'. However, none of the regional and interregional FAS programmes has been launched to date and, in addition to this, the recent 2010 Finance Law foresees the possibility for regional authorities to use the 2007-13 FAS resources to partially offset their NHS debt.<sup>14</sup>

This, the above discussed cuts and reallocations, and the changed macro-economic context cast doubts over the achievability of the objectives set out in the NSD which will have to be reassessed. At the same time, the reprogramming of the FAS has gone hand in hand with a redefinition of the NSD in an anti-crisis function (Law Decree no. 185/2008), and with an appraisal of the resources, which are left unutilised from FAS allocations for the 2000-06 period, which will be freed and reallocated.

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#### ENDNOTES

<sup>1</sup> This is one of the Articles that were reformed by the Constitutional Law no. 3/2001. The original text (Article 119(3)) foresaw that the State would make, through law, special contributions to individual regions to enable specific goals to be met and, particularly, to benefit the *Mezzogiorno* and the Islands. The amended text (Article 119(5)) foresees that - in order to promote economic development, social cohesion and solidarity, to remove economic and social disparities, to favour the effective exercise of individual rights, or to enable the fulfilment of different goals than those linked to the normal exercise of its functions - the State assigns additional resources and undertakes special interventions in favour of given municipalities, provinces, metropolitan cities and regions. It is interesting that the new text does not make specific reference to *Mezzogiorno*.

<sup>2</sup> Convergence regions omitted major parts of the traditional *Mezzogiorno* for the first time.

<sup>3</sup> The Italian National Strategic Document was approved by the European Commission on 13 July 2007, Ministero dello Sviluppo Economico, Dipartimento per le Politiche di Sviluppo e Coesione (2007) *Quadro Strategico Nazionale per la Politica Regionale di Sviluppo 2007-2013*, June 2007.

<sup>4</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2010) *Rapporto Annuale 2009 sugli interventi delle aree sottoutilizzate del Dipartimento per lo Sviluppo e la Coesione Economica*, Rome, July 2010, 233.

<sup>5</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2010) *Op. Cit.*, 7-8.

<sup>6</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2009) *Rapporto Strategico Nazionale 2009*, Rome, December 2009.

<sup>7</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2009) *Rapporto Annuale 2008 del Dipartimento per lo Sviluppo e la Coesione Economica sugli interventi nelle aree sottoutilizzate*, Rome, March 2009.

<sup>8</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2009) *Rapporto Strategico Nazionale 2009*, Rome, December 2009.

<sup>9</sup> Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2010) *Op. Cit.*, p. 6.

<sup>10</sup> The overall FAS resources foreseen by the 2007-13 NSD of June 2007 were originally of €64.4 million (Italian National Strategic Document p. 236), but these were soon reduced to €63,273 million by CIPE deliberation no. 166/2007.

<sup>11</sup> SVIMEZ (2009) *Rapporto SVIMEZ 2009 sull'economia del Mezzogiorno: Introduzione e sintesi*, SVIMEZ, Roma, 6.

<sup>12</sup> Art. 18, comma 1, law decree no.185/2008.

<sup>13</sup> The Strategic Infrastructures Fund comprises €12,356 million, the Strategic Fund for the support of the real economy €9,053 million, and the Social Fund for Employment and Training €2,800 million. In addition to this, the reallocated €25,459 million include €1,250 million for pre-allocations to specific measures (such as the employment tax credit, the provincial streets in Calabria and Sicily, civil protection measures and others). See Ministero dello Sviluppo Economico, Dipartimento per lo Sviluppo e la Coesione Economica (2010) *Op. Cit.*, p. 231.

<sup>14</sup> Law no. 191/2009, 23 December 2009, art. 2, comma 90.





## 15. LATVIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2.276	36.5	16.2	2812.2	64589	18768	55.0

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	46.0	46.9	45.2	51.9	49.0	52.8	51.4	46.8	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Unemployment rates (NUTS3)	21.7	19.4	24.4	20.1	20.5	10.6	23.4	27.2	16.2
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS3)	6.9	7.8	6.9	7.0	8.7	8.6	7.9	6.1	

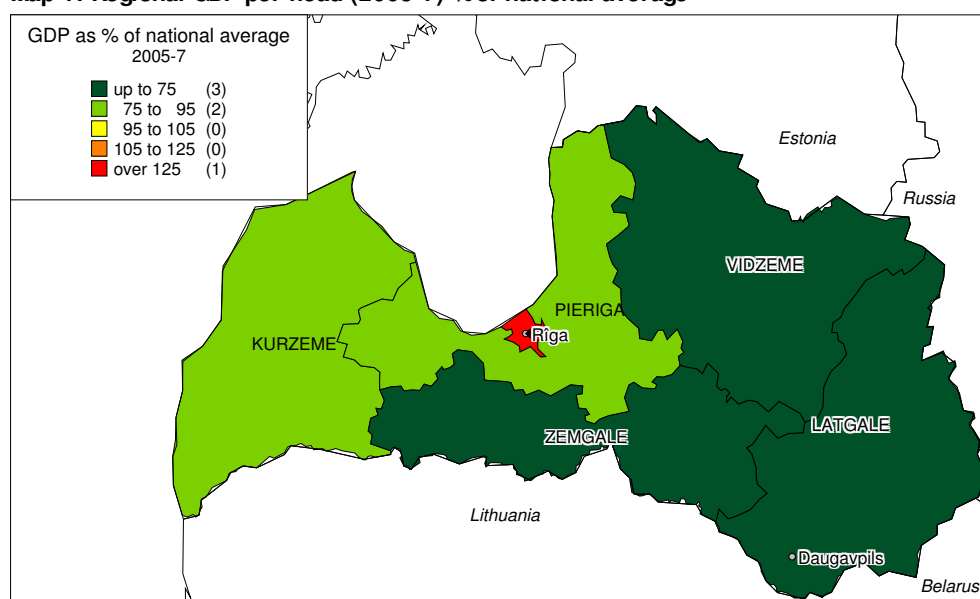
Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Latvia	6400	7000	7700	8400	9000	9900	10900	12200	13900
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>GDP(PPS) per head NUTS 3</b>									
Latvia	6400	7000	7700	8400	9000	9900	10900	12200	13900
Min	3200	3400	4300	4100	4600	4600	5300	5900	7400
Max	11000	12100	13100	15300	15900	18100	19800	21200	23900
<b>Employment rates NUTS 2</b>									
Latvia	49.8	48.2	49.3	50.5	51.4	51.9	52.6	55.3	56.9
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 2</b>									
Latvia	13.8	14.2	13.1	12.1	10.5	10.4	8.9	6.8	6.0
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 3</b>									
Latvia	13.8	14.2	13.1	12.1	10.5	10.4	8.9	6.8	6.0
Min	10.4	11.2	11.0	10.3	8.2	9.0	6.2	4.9	4.9
Max	20.5	20.5	20.0	17.8	15.4	12.7	13.1	10.8	8.0
<b>Disposable household income (PPS) per head NUTS 2</b>									
Latvia	3171.6	3657.6	3898.9	4385.6	4765.7	5264.7	5801.3	6775.6	7736.2
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na

Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, a maximum aid rate of 50 percent applies to large firms throughout the country.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.056	0.141	0.137	0.107	0.116	0.093
EfD	1.423	2.227	3.823	4.583	4.949	4.930
Social protection	13.1	12.3	11.9	11.9	10.7	
Cohesion policy	0.000	0.581	0.824	0.876	2.071	1.656

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
1540	2991				90	4620

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
4080.129	5.268	249.2	78.0	0.8538	81.2

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		<b>% of GDP</b>
• Broader regional policy (2009)	LVL12 mn (€17.2mn)	0.0917
• Local government infrastructure investment (2006-09)	€115 mn	0.2123

**Note:** Assistance for specially-supported areas consists mainly of infrastructure provision and tax concessions and exemptions.

**Source:** National expert's report.

## **LATVIA**

### **Overview**

The commitment to address regional inequalities is found in the legislation for specific policy instruments, rather than in the Constitution. The objectives of national regional policies are set out in the National Development Plan 2007-2013 (NDP). The main strategic objectives relate to education and knowledge for economic growth, and technological excellence. Regional development is an important dimension of the NDP which emphasises the need to minimise socio-economic differences between territories and to develop distinctive features of these territories.<sup>1</sup> The national response to regional disparities is closely tied to EU Cohesion policy, even though there are some national elements of policy. EU Cohesion policy and domestic regional policy are managed and implemented as part of an integrated system.

### **Objectives**

The objectives for national regional policy can be found in the National Development Plan 2007-2013 (NDP), the main medium-term strategic planning document that was approved by the Cabinet of Ministers on 4 July 2006. The NDP defines the main strategic objectives as education and knowledge for economic growth as well as technological excellence. Three main priorities were identified: 1) Educated and creative personnel; 2) Technological excellence and flexibility of industries; and 3) Development of science and research. Regional development is considered to be an important dimension of the NDP, which describes the potential of the country as whole and of its separate parts, the need to minimise socio-economic differences between territories, and the importance of building on the distinctive features of these territories.<sup>2</sup>

### **Regional problem**

The deepest development gap exists between the capital region Riga and the rest of the country. The GDP per capita of the Riga region is more than twice that of the second most prosperous region, Kurzeme, while that of the least developed region, Latgale, is less than one-third of the Riga region's GDP per head.<sup>3</sup> In general, economic activities and population are concentrated in the central part of the country, notably Riga and the surrounding Pieriga region. Other key differences in development include the gap between cities and their surrounding areas, on the one hand, and lagging rural areas located far away from the cities, especially Riga, on the other. A special territorial development index is applied in Latvia to measure the socio-economic development of different territories. According to this index, disparities between the five planning regions of Latvia have widened in terms of living standards and economic opportunities.<sup>4</sup>

### **Policy response**

One important component of narrow regional policy targets assistance at specific territorial units, so-called "specially supported areas". The aim is to provide opportunities for development to economically-weaker areas and to promote equal social and economic conditions over the entire territory. The status of a "specially supported area" is defined

using indicators such as the unemployment level and tax revenues per inhabitant. They are often rural areas that are located far away from the cities, especially from the capital city Riga (see Map 2).

**Map 2: Map of specially supported areas in Latvia**



**Source:** LR Ministry of Regional development and Self Local governments, available at: [http://www.rapl.gov.lv/uploads/filedir/Regionala%20attistiba/IAT/IAT\\_2010.jpg](http://www.rapl.gov.lv/uploads/filedir/Regionala%20attistiba/IAT/IAT_2010.jpg) (accessed 16.04.2010).

Support focuses on infrastructure improvements, the promotion of mobility and maintaining entrepreneurship activity by providing income tax exemptions. Commercial entities registered in the “specially supported areas” can apply for tax reductions.

Assistance for investment in the infrastructure of local government is the most typical example of a broad regional policy measure, financed via an instrument which supports local municipality investment projects (during the period 2006-09 more than €115 million invested). Other national measures include earmarked subsidies 1) to local municipalities for providing free Internet and computer access at local municipality libraries (some €2.9 million over the 2007-09 period); 2) to planning regions, districts, and local municipalities for developing and amending territorial planning (total funding in excess of €0.44 million); 3) for the activities of local municipalities (more than €15 million allocated); and 4) as support for the development of territorial infrastructure (just under €285,000 is provided for each county). However, taken as a whole, the amounts invested in broader regional policy are relatively small and have been in decline - from 29 million LVL (€41 million) in 2006 to 12 million LVL (€17.2 million) in 2009.<sup>5</sup>

Infrastructure development has been singled out as a particularly important measure for overcoming Latvia’s monocentric structure. According to one of the most relevant conceptual documents for the development of the transport sector, the “Position on Transport Development”, transport policy must provide opportunities for accessibility and mobility.<sup>6</sup> Both these objectives promote the social and economic inclusion of the population. At present, the development of transport infrastructure is financed solely from EU sources - the Cohesion Fund, the Structural Funds (ERDF) and Trans-European Networks (TEN) transport support. Although national funding was developed to supplement Cohesion

policy resources in the 2007-13 period (with, for instance, planned national co-finance assistance from the State Motorway Fund, SMF, of some €17.1 million each year)<sup>7</sup> financial support from the SMF was suspended in 2009 and 2010 in response to low budget revenues due to the financial and economic crisis.

Finally, the main tool for fiscal equalisation is the local government financial equalisation fund (LGFEF). The main financial source for this fund is intra-local government funding, i.e. horizontal equalisation. An example of vertical equalisation is the State budget grant, allocated every year to the LGFEF. The functioning of this instrument is based on the Law on the “Financial Equalisation of Local Governments”. In practice, the Ministry of Finance carries out the required calculations, and the State Treasury transfers the funds. Data for the last five years show that the total amount of LGFEF grew between 2006 and 2008 before declining during the recent economic crisis (2009-10). In other words, equalisation transfers increased during the period of growth and have since been cut back in response to the crisis. The size of the fund has varied between 104 and 180 million LVL (€145 million to €254 million).<sup>8</sup>

### **Policy features**

The National Development Plan 2007-2013 defines the main objectives of regional development policy as education and knowledge for economic growth as well as technological excellence. Regional development is considered an important dimension of these objectives. The Ministry of the Regional Development implements both narrow and broader regional policies in close cooperation with the State Regional Development Agency, which is responsible for the administration of the financial support allocated within the national regional development instruments.

Local self-governments are the final beneficiaries. They are the recipients of support from national financial institutions, are entitled to apply for funds and are responsible for ensuring the sound administration of funds allocated. Overall coordination of the different policies is achieved through the development and implementation of strategic documents of national importance such as the “National Development Plan 2007-2013” and the “Sustainable Development Strategy of Latvia up to 2030”. The Ministry of the Regional Development and Local Government and the Ministry of Finance play the central roles in elaborating and implementing these documents as well as in the coordination of different policies within them.

### **Importance of Cohesion policy**

EU Cohesion policy and domestic regional policy are managed and implemented as an integrated system. The requirements of Structural Funds administration played a decisive role in determining the overall domestic implementation system for regional policy. There were no specially established agencies dealing only with the Structural Funds. Instead, departments responsible for Structural Funds programmes and funds were incorporated within the existing institutional structure.

Long-term development objectives in Latvia have always been closely interrelated with the priorities of EU Cohesion policy. The National Strategic Reference Framework (NSRF) has been elaborated on the basis of the NDP and the National Lisbon programme for Latvia. The NSRF links Cohesion policy with national priorities and justifies the choice of these priorities. It also determines the implementation strategy for EU Cohesion policy funds and the institutional framework, while ensuring coordination between the Operational Programmes and other financial instruments.<sup>9</sup>

Assistance for infrastructure investments are closely related to EU Cohesion policy funds, as both types of assistance are frequently combined, and national funds are used as a source of co-financing for Structural Funds or the Cohesion Fund. The direct assistance towards “specially supported areas” is allocated from national resources. However the territory development index, on the basis of which the status of “specially supported areas” is awarded, is also widely used as a selection criterion for the award of projects from various activities within the framework of EU Cohesion policy.

Spillover effects have occurred as a result of the Cohesion policy Management and Implementation System (MIS), which has become an integral part of Latvia’s administrative culture. A better understanding of the role of the audit function is one of the changes in administrative culture that have taken place in the national administration as a result of experiences with EU Cohesion policy management. The partnership principle has also become more accepted, and the growing awareness of horizontal cooperation encourages improvements in cross-departmental and cross-organisational ties.

### **Impact of the crisis**

The economic crisis has had a very significant impact on regional development. Even before the crisis, most regions were lagging behind due to a lack of employment opportunities and low revenues in local government budgets. The economic decline brought about a rise in unemployment, decreasing budget revenues and a much-reduced capability of the central government to support local governments. The limited availability of EU Funds has added to the problem. The government has suspended a number of activities from Structural Funds support as their implementation has to be pre-financed from the state budget. This has led to a prioritisation of activities that have already been launched.

In December 2008, an IMF Stand-by Arrangement was approved to support the country’s program to restore confidence and stabilise the economy, amounting to just under €1.7 billion. The total international support package will amount to €7.5 billion over the period to the first quarter of 2011, including funding from the EU, individual European countries, the World Bank, and the EBRD.<sup>10</sup> Related, Latvia is one of five countries receiving a share of additional advances of €775 million (4 percent from ESF and 2 percent from the Cohesion Fund) under the simplification measures decided by the European Commission in June 2010.

In this situation, where national resources are scarce, the importance of EU funds in ensuring some economic activity in the regions cannot be overestimated. Representatives from local governments and experts have repeatedly emphasised the role of EU Cohesion policy funding for overcoming the current economic decline. They have also proposed a



number of improvements in the management of EU funds, such as increased state partnership in project pre-financing, a reduction in the time period for processing payment claims and the use of acceptance certificates instead of invoices as supporting documents in project financial reports.

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#### ENDNOTES

<sup>1</sup> Latvian National Development Plan 2007-2013. Ministry of Regional Development and Local Government of the Republic of Latvia, Ltd. "Jelgavas tipogrāfija" 2006.

<sup>2</sup> Latvian National Development Plan 2007-2013. Ministry of Regional Development and Local Government of the Republic of Latvia. "Jelgavas tipogrāfija" 2006. Development Planning System Law with amendments <http://www.likumi.lv/doc.php?id=175748>

<sup>3</sup> Data for year 2007, see <http://www.csb.gov.lv/> accessed 16 April 2010

<sup>4</sup> LR Ministry of Regional Development and Local Government. Annual Report (2007) [http://www.infrastructure.gov.lv/departament/annual\\_report/2007\\_2008/files/DITRDLG\\_AR0708.pdf](http://www.infrastructure.gov.lv/departament/annual_report/2007_2008/files/DITRDLG_AR0708.pdf) accessed 16 April 2010.

<sup>5</sup> For data on the amount of the State Budget subsidy for investment projects, see <http://www.rapl.gov.lv/pub/index.php?id=1721>, accessed 16 April 2010

<sup>6</sup> "Position on transport development", see [www.sam.gov.lv](http://www.sam.gov.lv), accessed 13 July 2010.

[http://www.sam.gov.lv/images/modules/items/DOC/item\\_2715\\_Transporta\\_pamatnostadnes.doc16/04.2010](http://www.sam.gov.lv/images/modules/items/DOC/item_2715_Transporta_pamatnostadnes.doc16/04.2010)

<sup>7</sup> "Position on transport development, p.23, see [www.sam.gov.lv](http://www.sam.gov.lv), accessed 13 July 2010.

<sup>8</sup> For data on the local government financial equalisation fund 2006-2010, see [http://www.kase.gov.lv/?object\\_id=362](http://www.kase.gov.lv/?object_id=362)

<sup>9</sup> NSRF, <http://www.esfondi.lv/page.php?id=478> accessed 16 April 2010

<sup>10</sup> International Monetary Fund (2008) 'IMF Executive Board Approves €1.68 Billion (US\$2.35 Billion) Stand-By Arrangement for Latvia', *Press Release*, 08/345, 23.12.2008.

## 16. LITHUANIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	53.9	26.1	90	65300	26747	58.9

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	17.2	20.8	21.8	24.5	24.2	23.5	25.1	27.6	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Unemployment rates (NUTS3)	11.8	10.7	10.4	11.5	17.0	15.5	20.7	19.7	20.3
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS3)	3.2	3.5	3.0	3.4	4.3	3.9	3.3	4.7	

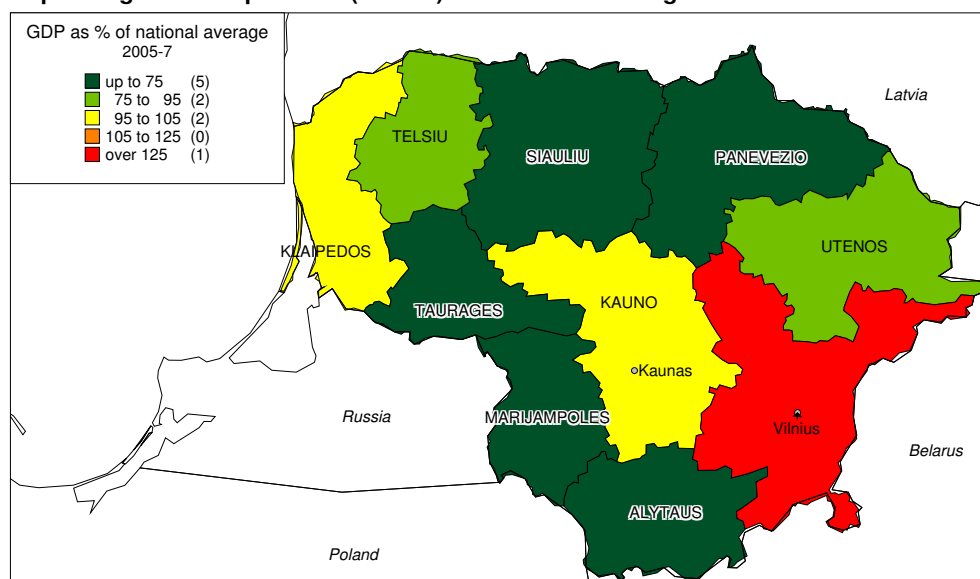
Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS2</b>									
Lithuania	6900	7500	8200	9000	10200	10900	11900	13100	14800
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>GDP(PPS) per head NUTS3</b>									
Lithuania	6900	7500	8200	9000	10200	10900	11900	13100	14800
Min	4100	4400	4800	5000	5300	5500	5700	6100	6600
Max	9300	10300	11500	13300	14900	16000	17600	20100	23100
<b>Employment rates NUTS2</b>									
Lithuania	53.0	50.7	49.1	50.1	50.9	50.7	51.9	52.7	53.9
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS2</b>									
Lithuania	13.4	15.9	16.8	13.7	12.4	11.4	8.3	5.6	4.3
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS3</b>									
Lithuania	13.4	15.9	16.8	13.7	12.4	11.4	8.3	5.6	4.3
Min	10.7	12.9	14.1	8.6	7.5	6.9	6.0	na	na
Max	17.6	19.1	21.9	16.2	16.9	16.0	10.8	na	na
<b>Disposable household income (PPS) per head NUTS2</b>									
Lithuania	3929.7	4350.1	4609.5	5071.5	5692.4	6121.9	6839.1	7548.9	8091.8
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na

Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, a maximum aid rate of 50 percent applies to large firms throughout the country.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.054	0.066	0.071	0.057	0.022	0.386
<b>EfD</b>	2.540	2.944	2.967	3.262	3.855	4.047
<b>Social protection</b>	13.1	12.8	12.7	12.8	13.9	
<b>Cohesion policy</b>	0.000	0.520	0.758	0.800	1.629	1.957

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
2305	4470				109	6885

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
6081.433	4.846	250.4	81.0	0.6418	70.7

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		<b>% of GDP</b>
Programme for the reduction of regional and social economic disparities 2007-10 (annual average)	LTL350mn (€102.5mn)	0.3500
National regional aid Kaunas free economic zone scheme 2007-13 (annual budget)	LTL17mn	0.0170
National regional aid Klaipėdos free economic zone scheme 2007-13 (annual budget)	LTL20mn	0.0200

**Note:** Under the programme for the reduction of regional and social economic disparities 2007-10, some 92 percent comes from EU structural support, with about 6 percent from national co-finance. The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report and State aid cases XR29/07 and XR30/07. The free economic zone schemes are co-funded.

## LITHUANIA

### Overview

Lithuania's regional policy is based on the 2000 Law on Regional Development of the Republic of Lithuania and on a range of policy strategies. It is comprised of cohesion policy, financed through EU funds, and the state's own regional policy; both co-finance the various policy instruments. The two overarching objectives of the Programme for the Reduction of Regional Social and Economic Disparities 2007-2010 are, first, to promote living standards and employment in order to achieve greater territorial and social cohesion and, second, to improve competitiveness in seven regional growth centres. Policy instruments include complex development investment programmes for regional centres, development programmes for problem municipalities and regional development plans. The only policy instrument that is completely independent of EU Structural Funds is the municipal budget process, a mechanism to promote fiscal equalisation between municipalities.

### Objectives

After Lithuanian independence, a static approach to regional policy prevailed, as the definition of regional policy was restricted to determining the functions and responsibilities of the territorial administration units. The first Law on Regional Development of the Republic of Lithuania was adopted in 2000.<sup>1</sup> It describes regional and spatial disparities and defines the main goals of regional policy as 1) the reduction of social and economic disparities between and within the regions and 2) the promotion of balanced and sustainable development of the entire territory.

The policy framework for national regional policy is based on a hierarchy of strategic documents, including the country's strategies for long-term and sustainable development as well as the General Plan of the Republic of Lithuania.<sup>2</sup> The most detailed provisions for regional policy are made in the 2005 Regional Policy Strategy until 2013 and in the Programme for the Reduction of Regional Social and Economic Disparities 2007-2010.<sup>3</sup> The Regional Policy Strategy defines the basic principles of regional policy, identifies lagging regions and sets strategic objectives and priorities of regional policy. The objective is to promote territorial and social cohesion in terms of living standards and employment and to improve competitiveness in seven regional growth centres (Alytus, Marijampole, Mazeikiai, Taurage, Telsiai, Utena and Visaginas).

### Regional problem

Lithuanian regional policy aims to reduce territorial inequalities in income and unemployment rates throughout the country. Klaipeda county in the north-west, Kaunas county and, particularly, the capital region Vilnius county have the highest GDP per capita, while Lithuania's south-western regions are generally weakest. For example, Taurage county's GDP per capita has been almost 50 percent below the national average for the past six years. At the same time, it is difficult to detect regional patterns because there is as much variation within regions as there is between them. Similar to counties, problem municipalities are identified according to indicators such as comparative indices of

unemployment and residents receiving social allowances. Municipalities with specific features, such as border or rural municipalities, tend to have the lowest incomes, though regional policy takes no account of these features.

### **Policy response**

National regional policy has two main directions both of which are co-financed by EU Cohesion policy. The first is to foster economic development and raise competitiveness in regional centres (long-term development objective). The second is to raise the quality of life in problem municipalities (short-term development objective).

Regarding the first, the Programme for the Reduction of Regional Social and Economic Disparities 2007-2010 draws special attention to the development of seven regional centres defined in the Regional Policy Strategy. Complex development investment programmes for regional centres have been prepared and approved by decree of the Minister of Interior.<sup>4</sup> Accordingly, funds are allocated to: 1) the renovation of public areas of the cities; 2) the development of recreational zones; and 3) the regeneration of abandoned territories. The total amount intended for the implementation of the Programme is LTL 1.4 bn (€ 0.41 bn.). The largest share (92 percent) comes from EU structural support, with about 6 percent from national co-finance.<sup>5</sup>

With respect to the second, one of the objectives of the Programme for the Reduction of Regional Social and Economic Disparities is to assist 14 problem municipalities. To this end, the Government developed and approved development programmes for problem areas.<sup>6</sup> These focus on improving the living environment, reconstructing public infrastructure, clearing-out abandoned areas, promoting employment, raising the productivity of workers and civil servants, and optimising administrative systems. As regards levels of expenditure, the implementation phase of national regional policy (e.g. the Regional Policy Strategy until 2013) has generally been fragmented and limited to administrative decision-making and the identification of problem areas and regional growth centres.

Regional development plans that are prepared and implemented at county level can be seen as broad regional policies. The aim of this regional development programme is to improve regional planning systems and create opportunities for the regions and municipalities to receive support from EU Structural Funds while implementing regional development plans. The programme provides assistance to the ten county administrations when they develop regional development plans, i.e. mid-term core strategic planning documents at the regional level. Regional Development Councils which operate in each county must approve the regional development plans. The largest share of all measures financed under regional development plans is funded through EU Structural Funds. Very few measures are financed from national resources alone.<sup>7</sup>

National regional policy in Lithuania operates separately from sectoral policies. Most sectoral policies do not have an explicit regional dimension. Transport policy is, perhaps, the most closely-associated sectoral policy, but it is related mainly to geographical aspects (e.g. the importance of links to sea ports) or existing infrastructure (e.g. railway improvements) rather than to any cohesion agenda.

The municipal budget process has features of a fiscal equalisation mechanism. Municipal budgets are based on income from municipal taxes and from the State's special subsidy to implement delegated functions. As the municipalities' tax base varies, a fiscal equalisation mechanism is in place to redistribute residents' income tax. Four municipalities (Vilnius city, Klaipėda city, Kaunas city and Mažeikiai district) indirectly subsidise the other municipalities through this mechanism. The equalisation varies from -60 percent to +300 percent of redistributed residents income tax as a share of collected residents' income tax in a particular municipality. Some of the tasks that are financed through this redistributed tax, such as planning or contributing towards the regional development programmes, have an important cohesion dimension. The fiscal equalisation mechanism covers only about half of municipality budgets and these funds are allocated to implement so called *independent* functions of municipalities which have an important social and cohesion dimension.

### **Policy features**

The Law on Regional Development of the Republic of Lithuania, together with a variety of strategic documents that include the Regional Policy Strategy and the Programme for the Reduction of Regional Social and Economic Disparities, constitute the policy framework for regional development in Lithuania. The Regional Policy Strategy defines two main objectives: promoting territorial and social cohesion in terms of living standards and employment, and improving competitiveness in seven regional growth centres.

The strategic development of policy is organised hierarchically. The Government defines the broad parameters of regional policy and is advised in this task by the National Regional Development Council, an advisory body comprised of national and regional stakeholders. The Ministry of the Interior is responsible for the coordination of national regional policy: the Ministry coordinates regional policy implementation, participates in the creation of sectoral development strategies and provides technical assistance to counties and regional development councils. Other ministries and institutions contribute towards the implementation of national regional policy by implementing sectoral measures to diminish social and economic differences between and within regions.

Regional policy is planned and implemented at the regional level, i.e. in the counties, with the collaboration of social and economic partners. Regional development councils (comprised of representatives of the municipalities and the county governor administration) and county governor administrations both contribute to the design of regional development plans and to project selection. The regional development councils also have important implementation functions.

### **Importance of Cohesion policy**

Until 2007-13, Lithuania's regional policy is comprised of Cohesion policy financed by EU funds and national regional policy. In terms of content and financial resources, national regional policy and EU Cohesion policy have largely been merged. Both have the same objective: social and economic cohesion. However, one important difference is that Lithuania is defined as one Objective 1 region in the context of EU Cohesion policy, while

national regional policy aims to reduce the social and economic disparities between and within the regions of Lithuania.

The main directions and objectives of national regional policy have, as mentioned, been widely translated into the framework for Cohesion policy and are mainly financed by Cohesion policy Operational Programmes (OPs). Three main features of national regional policy are reflected within the Cohesion policy framework: the fact that some OPs are implemented via regional-level projects (and through the regional development councils) - these account for around 12.5 percent of total Structural Funds support (i.e. LTL 2.46 bn) and include spatially-targeted measures; the operation of specific measures to promote the attractiveness of regional growth centres (with planned investment of LTL 415.4 million); and support for measures targeted at problematic areas.

The Ministry of Finance acts as the Managing Authority and is responsible for the overall coordination of Structural Funds implementation. The Ministry of Interior, in its function as an Intermediate Body, is delegated some narrow coordination tasks with respect to the implementation of domestic regional policy co-funded by EU Cohesion policy. Decision-making systems for EU and domestic funding and related implementation channels are broadly aligned, although there is some internal differentiation. Additional units were created within the departments of involved ministries to deal with Structural Funds processes and instruments. Structural Funds and domestic co-financing resources are allocated to the programmes of the Intermediate Bodies which are overall responsible for the distribution of the funds to projects in their respective sectors.

**Figure 8: Preliminary financial demand (thousand LTL) and sources of finance**

		<i>Objective 1: Territorial social cohesion</i>	<i>Objective 2: Integration of urban and rural residential areas</i>
2007	EU support	98,453	6,288
	National budget	2,500	-
	Other sources	6,050	-
2008	EU support	300,323	48,932
	National budget	2,500	-
	Other sources	2,968	-
2009	EU support	373,995	48,932
	National budget	2,500	-
	Other sources	2,659	-
2010	EU support	379,044	48,932
	National budget	2,500	-
	Other sources	558	-

**Source:** *The Complement of the Programme of reduction of social and economic differences of the regions for 2007-10*

[http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc\\_l?p\\_id=310272&p\\_query=&p\\_tr2=.](http://www3.lrs.lt/pls/inter3/dokpaieska.showdoc_l?p_id=310272&p_query=&p_tr2=)

With the exception of fiscal equalisation mechanisms, it is not possible to identify purely domestic regional policy. As Figure 8 shows, between 2007 and 2010, EU support has been by far the most important source of regional development funding. Funding volumes aside, Cohesion policy is having a considerable impact, in particular with regard to strengthening



administrative capacity, introducing good practice for developing, implementing and evaluating regional policies, and emphasising horizontal priorities such as sustainable development.<sup>8</sup>

### Impact of the crisis

The effects of economic crisis on Lithuania's socio-economic situation can be illustrated by reference to changes in GDP and in the unemployment rate. The crisis began in mid 2008, when Lithuanian production output began to slow-down and the unemployment rate began to rise. GDP fell dramatically in 2009 by almost 15 percent. The unemployment rate continues to build in 2010, and it may reach 16-18 percent and stay at this level until 2015.<sup>9</sup> Due notably to the considerable decrease in GDP, Lithuania is one of five countries receiving a share of additional advances of €775 million (4 percent from ESF and 2 percent from the Cohesion Fund) under the simplification measures decided by the European Commission in June 2010.

The economic crisis has affected the social and economic situation in all Lithuanian regions. On the one hand, the impact of the slow-down equalised some regional differences such as the regional unemployment rate. On the other, the key features of the regional problem remain unchanged. With regard to the policy response to the crisis, there is no evidence that national regional policy has been adapted to meet the challenges brought by the economic slow-down (unlike, for example, national fiscal policy or economic policy).

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### ENDNOTES

<sup>1</sup> Lietuvos Respublikos regioninės plėtros įstatymas (Žin., 2000, Nr. 66-1987; 2002, Nr. 123-5558).

<sup>2</sup> Valstybės ilgalaikės raidos strategija (Žin., 2002, Nr. 113-5029); Lietuvos ūkio (ekonomikos) plėtros iki 2015 metų strategija (Žin., 2002, Nr. 60-2424); Darnaus vystymosi strategija (Žin., 2003, Nr. 89-4029); Lietuvos Respublikos teritorijos bendrasis planas (Žin., 2002, Nr. 110-4852).

<sup>3</sup> Lietuvos regioninės politikos iki 2013 metų strategija (Žin., 2005, Nr. 66-2370); Regionų socialinių ir ekonominių skirtumų mažinimo programa (Žin., 2007, Nr. 127-5185).

<sup>4</sup> Decree of Minister of Interior, 2008 04 24, Nr. 1V-148.

<sup>5</sup> Source: *The Complement of the Programme of reduction of social and economic differences of the regions for 2007-2010*. Calculations made by BGI Consulting.

<sup>6</sup> Decrees of the Government of Republic of Lithuania, issued in 2009 09 03 and 2008 10 29 (2008 m. rugsėjo 3 d. nutarimu Nr. 922 (Žin., 2008, Nr. 111-4232) ir 2008 m. spalio 29 d. nutarimu Nr. 1160 (Žin., 2008, Nr. 134-5196).

<sup>7</sup> Due to various factors, such as the late start of the 2007-13 Cohesion programmes, the low possibility for domestic (regional, municipal) co-financing (which worsened during the economic slowdown) and an underdeveloped regional management and implementation system, implementation of regional development programmes has been very low. Regional development plans are foreseen to be mostly financed by EU funds as the vast majority of measures are developed according to the Cohesion policy framework. As the implementation of regional plans is low and monitoring data is scarce it is difficult to precisely assess exact shares of funding at the county level. Monitoring data for the Vilnius County regional development plan may partly illustrate the distribution of financial sources under the programme. In 2007, EU funds comprised 19 percent, in 2008, 30 percent and in 2009, 45 percent. However, if planned expenditure data were to be taken into account the share of EU funds would amount to at least 75 percent of all planned expenditure for the regional plan (estimation by BGI Consulting).

<sup>8</sup> European Policies Research Centre (EPRC) and Metis (2008) *Overview of Management and Implementation Systems of Cohesion policy in 2000-06, Lithuania*, Ex post evaluation of Cohesion

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policy programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2), Work Package 11: Management and Implementation Systems for Cohesion policy.

<sup>9</sup> According to an evaluation carried out by the Ministry of Finance, 2009.



## 17. LUXEMBOURG

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
0.480	182.8	na	na	2586	37755	274.7

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	na	na	na	na	na	na	na	na	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Unemployment rates (NUTS3)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS3)	na	na	na	na	na	na	na	na	na

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

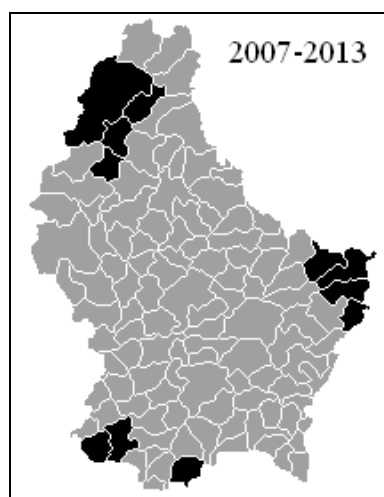
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Luxembourg	42300	46400	46300	49200	51300	54700	57200	64400	68500
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>GDP(PPS) per head NUTS 3</b>									
Luxembourg	42300	46400	46300	49200	51300	54700	57200	64400	68500
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Employment rates NUTS 2</b>									
Luxembourg	51.1	52.2	52.8	53.3	52.2	52.2	53.1	52.4	53.7
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 2</b>									
Luxembourg	2.4	2.3	1.8	2.6	3.7	5.1	4.5	4.7	4.1
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 3</b>									
Luxembourg	2.4	2.3	1.8	2.6	3.7	5.1	4.5	4.7	4.1
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Luxembourg	na	na	na	na	na	na	na	na	na
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na

Source: Eurostat

**Map 1: Regional aid map 2007-13**



Source: State aid No. N 523/2006 - Luxembourg, Regional aid map 1.1.2007-31.12.2013, in: Official Journal JOCE C/280/2006.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.106	0.048	0.040	0.021	0.023	0.015
EfD	4.021	3.958	3.932	3.047	2.994	2.847
Social protection	21.7	21.9	21.3	19.9	19.0	
Cohesion policy	0.025	0.106	0.037	0.061	0.036	0.137

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
				50	15	65

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
57.915	0.032	18.5	43.3	0.0294	15.7

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

Narrow and broad regional policies:		% of GDP
• Regional aid	€6.6 mn (2009)	0.0175

Source: National expert's report.

## LUXEMBOURG

### Overview

As a result of Luxembourg's small size and border-region character, regional policy is largely synonymous with national industrial and economic policy. The focus is on endogenous development and attracting foreign investment as well as competitiveness in line with the Lisbon objectives. Due to the absence of major regional disparities, regional aid only plays a subordinate role, and there has been a growing focus on horizontal measures (e.g. in the field of R&D support). This is also reflected in the approach to Cohesion policy which is closely aligned to the country's policy priorities via the National Strategic Reference Framework though, at the operational level, Cohesion policy is implemented separately.

### Objectives

Reflecting the existence of limited disparities, the only reference to balanced regional development is made in the Law on Regional Economic Development. It states that regional aid is awarded to investments with specific regional interest or leverage effect, or which contribute to a better geographical distribution of economic activities or employment creation.<sup>1</sup> More generally, the long-term goal of the country's economic policy relates to economic diversification in order to overcome sectoral concentration (first steel, now financial services).

### Regional problem

With a surface area of 2586 km<sup>2</sup> and just 460,000 inhabitants, Luxembourg is the second smallest EU Member State. Adjoining Belgium, Germany and France, it is, in effect, a border region which has been integrated firmly within larger entities such as Benelux and the *Grande Région*. The regional problem is traditionally associated with the restructuring of the coal and steel industries in the south and with fragile rural areas in the north.<sup>2</sup> Economic activity tends to be concentrated in the centre of Luxembourg, a problem that is further compounded by migration from already sparsely populated rural areas, causing congestion and housing shortages in the cities. Overall, the population remains concentrated in the South and Centre-South Regions with 55 percent of the population living in the capital and its surroundings. Finally, due to its border-region location, Luxembourg is specially affected by cross-border traffic and the largest workforce share of cross-border commuters in the EU. Therefore, cross-border cooperation is seen as crucial to enhance territorial cohesion, notably in the framework of the *Grande Région*, linking Luxembourg with German, Belgian and French border regions.

### Policy response

Narrow regional policy is based on the new Law on Regional Economic Development which was adopted in July 2008, updating previous legislation from 2000. It provides for capital grants to be continued as the main instrument and re-introduces interest payments, enabling financial institutions to provide cheaper loans to businesses. In line with Commission guidelines, the law also contains a new aid instrument for small new firms (i.e.

no older than two years) in eligible regions. However, with only €6.6 million allocated in 2009, related support is rather modest, notably in comparison with €38.5 million of R&D support available throughout the country in the same year.<sup>3</sup>

In line with the overarching goal of economic diversification, policy seeks to improve the business environment more broadly, e.g. by encouraging innovation, by improving infrastructure and by giving firms access to appropriate finance. A number of specific instruments have been devised, notably in the field of industrial estates, finance (banks, national investment agency, risk capital) and infrastructure. In addition, there has been an emphasis on horizontal aids, particularly R&D and SME support. Moreover, assistance is provided in the framework of a cluster programme.

As space is very limited in Luxembourg, spatial planning, and notably the conversion of industrial wasteland is seen as a key development opportunity. Related initiatives are mainly oriented towards the south of Luxembourg. A regional development plan (*Plan régional Sud*) was set up in 1999 on the initiative of the Ministry of the Interior and Spatial Planning, encouraging municipalities to cooperate in matters of spatial planning. Furthermore, an integrated investment programme was launched, involving measures of urban upgrading and the development of a 'Science City' (*Cité des Sciences*). This is based on the merger of major public research institutes and provides industrial estates for innovative start-ups and high-tech companies.

### **Policy features**

The main policy reference documents are the National Reform Programme ('National Plan for Innovation and Full Employment') and the National Strategic Reference Framework (NSRF), indicating a high degree of alignment of policy objectives with the Lisbon agenda. Regional policy, which, as described above, only plays a minor role, is implemented in small regional aid areas in the north, south and east of the country accounting for 16 percent of the population (see Figure 1). In addition, the old industrial south receives targeted support. All other aid schemes, as well as business support more generally, operate throughout the country.

Due to the small size of the country, policy design and implementation is centralised in the Ministry of Economy and Foreign Trade with no significant involvement of sub-national actors. The Directorate for Industry of the General Directorate of Economic Development, New Technologies and Energy is in charge of managing the regional aid scheme. An inter-ministerial State Aid Commission, composed of representatives from ministries responsible for economy, energy, employment, environment, budget, research, the interior and spatial planning is charged with making award decisions for the four aid schemes. The secretariat is provided by the Ministry of Economy and Foreign Trade.<sup>4</sup>

Recent years have witnessed much high-level coordination between different Ministries in the drawing-up of spatial planning documents. This can be seen, for example, in the National Spatial Planning Programme, which combines a territorial dimension (e.g. the *plans directeurs régionaux*) with a sectoral dimension (the *plans directeurs sectoriels*). Also, efforts have been made to implement sub-national development policies in the

context of an Integrated Transport and Spatial Planning Concept (IVL, *Integratives Verkehrs- und Landesplanungskonzept*). The IVL is an attempt to add a spatial dimension to transport and housing policy. Based on the six planning regions and three urban poles, it outlines Luxembourg's medium-term goals in urban and rural development policy, transport, and the related area of environmental policy.<sup>5</sup>

### **Importance of EU Cohesion policy**

The relationship between domestic and EU policies has always been close in Luxembourg. After the 2004 General Elections, the government decided to enhance the synergy of its internal policies, mainly led by the EU Lisbon and Gothenburg strategies. As mentioned above, policy references to themes such as innovation and R&D are firmly embedded in the Lisbon agenda. Moreover, a Competitiveness Observatory was set up within the Ministry for the Economy and Foreign Trade in 2003. It develops economic forecasts and monitors compliance with Lisbon in regular reports.<sup>6</sup> There is therefore a strong alignment between Cohesion and domestic policies with the NSRF as the main reference document.

The ERDF envelope amounts to €25 million for the 2007-13 period and is implemented via one programme for Competitiveness and Employment. Funding decisions are made separately from domestic funding channels based on biannual project calls. There is no *a priori* earmarking of funds to specific areas, but the Operational Programme underlines the specific needs of lagging areas in the field of basic infrastructure and industrial restructuring in the south and north. It also highlights the role of the City of Sciences in the south, with a specific measure targeted at the development of related capacity and competences.<sup>7</sup> The strong alignment of Cohesion and domestic policies is, for example, reflected in ERDF support being provided to the National Agency for Innovation and Research Promotion, Luxinnovation, to enhance the business environment.<sup>8</sup>

The relationship between domestic and EU systems is strengthened by the fact that the Ministry of Economy and Foreign Trade is responsible for both Cohesion policy and related domestic interventions. The ERDF programme is, however, managed separately in the regional policy unit of the General Directorate for Regional Policy, the Internal Market, Consumption and Intellectual Property (*Direction générale de la politique régionale, du marché intérieur, de la consommation et de la propriété intellectuelle*). Although rather limited, some impact from Cohesion policy can be detected in domestic policies, mainly raising awareness on the usefulness of monitoring, and concerning evaluation which is, in future, expected to play a more important role in domestic policies.<sup>9</sup>

### **Impact of the crisis**

The economic crisis has affected the country severely, partly due to the enduring one-sidedness of the economy, especially its over-reliance on the financial sector. It has, however, not increased regional disparities. In response to the crisis, use is made of the possibility to grant maximum flat-rate aids of €500,000 in the context of the Temporary Community framework for State aid measures.<sup>10</sup> In the same context, the temporary provision of State guarantees for loans accompanied by a premium reduction was



introduced.<sup>11</sup> Moreover, policies of economic diversification and R&D promotion have been enforced.

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#### ENDNOTES

<sup>1</sup> *Loi du 15 juillet 2008 ayant pour objet: 1. le développement économique de certaines régions du pays; 2. la modification - de la loi modifiée du 27 juillet 1993 ayant pour objet 1. le développement et la diversification économiques, 2. l'amélioration de la structure générale et de l'équilibre régional de l'économie; - de la loi du 22 février 2004 instaurant un régime d'aide à la protection de l'environnement, à l'utilisation rationnelle de l'énergie et à la production d'énergie de sources renouvelables, Art.2.*

<sup>2</sup> OECD (2007) *Territorial Reviews: Luxembourg*, Paris.

<sup>3</sup> Ministère de l'Economie et du Commerce extérieur (2010) *Rapport d'activité 2009*, p.170.

<sup>4</sup> *Règlement grand-ducal du 27 août 2008 déterminant la composition et le fonctionnement de la commission chargée de l'examen des demandes d'aide en faveur de l'investissement et de la recherche-développement des entreprises.*

<sup>5</sup> Innenministerium, Transportministerium, Ministerium für Öffentliche Bauten, Umweltministerium (2004) *Ein Integratives Verkehrs- und Landesplanungskonzept für Luxemburg.*

<sup>6</sup> Ministère de l'Economie et du Commerce extérieur (2007) *Bilan compétitivité 2007 - en route vers Lisbonne.*

<sup>7</sup> Ministère de l'Economie et du Commerce extérieur (2007) *Programme Opérationnel Feder, Compétitivité régionale et emploi*, CCI 2007 LU 162 PO 001.

<sup>8</sup> Le Gouvernement du Grand-Duché de Luxembourg (2009) *Rapport Stratégique du Grand-Duché du Luxembourg.*

<sup>9</sup> European Policies Research Centre (EPRC) and Metis (2008) *Overview of Management and Implementation Systems of Cohesion policy in 2000-06, Luxembourg*, Ex post evaluation of Cohesion policy programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2), Work Package 11: Management and Implementation Systems for Cohesion policy.

<sup>10</sup> *Loi du 29 mai 2009 instituant un régime temporaire d'aide au redressement économique.*

<sup>11</sup> *Loi du 29 mai 2009 instituant un régime temporaire de garantie en vue du redressement économique.*

## 18. MALTA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
0.409	1281.2	462	1514	316	5712	76.5

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	na	3.4	3.3	3.4	4.2	4.2	4.2	3.3	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Unemployment rates (NUTS3)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS3)	na	na	na	na	na	na	na	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

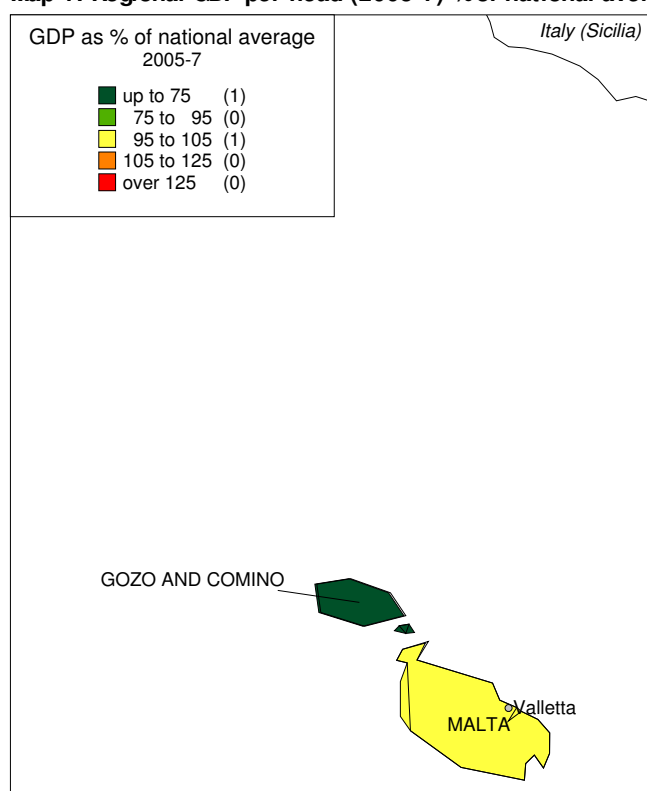
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Malta	14400	15900	15400	16300	16200	16700	17500	18200	19000
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>GDP(PPS) per head NUTS 3</b>									
Malta	14400	15900	15400	16300	16200	16700	17500	18200	19000
Min	na	12400	12400	12800	12300	12400	13000	13000	14800
Max	na	16200	15700	16600	16600	17000	17900	18600	19400
<b>Employment rates NUTS 2</b>									
Malta	na	46.5	46.8	46.4	46.2	46.0	45.9	45.0	45.8
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 2</b>									
Malta	na	6.3	7.1	6.9	7.6	7.2	7.3	7.3	6.4
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Unemployment rates NUTS 3</b>									
Malta	na	6.3	7.1	6.9	7.6	7.2	7.3	7.3	6.4
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Malta	na	na	na	na	na	na	na	na	na
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na

Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, a maximum aid rate of 30 percent applies to large firms throughout the country.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.000	0.000	0.000	0.000	0.000	0.000
<b>EfD</b>	7.054	3.493	4.812	4.178	3.807	2.710
<b>Social protection</b>	18.1	18.6	18.3	18.0	17.9	
<b>Cohesion policy</b>	0.000	0.143	0.113	0.318	0.900	0.771

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
284	556				15	855

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
758.913	2.502	273.8	84.5	0.3417	74.3

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		%of GDP
• Eco Gozo: A Better Gozo 2010-2012 - annual budget (note that elements in the budget may be EU-funded)	€8.33mn	0.1456
• Investment aid scheme 2008-13 - annual budget (State Aid XR10/08, see OJEC 2008/C181/08 of 18.7.2008).	MTL13mn	0.2314

**Note:** The Investment aid scheme has two components: the Gozo regeneration scheme, offering support for jobs created post 1 January 2007, and a nationally-available tax credit. The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report.

## MALTA

### Overview

Reflecting Malta's small size, the approach to economic, social and territorial cohesion is national rather than regional; there are no specific laws or policy frameworks that deal with regional development. However, while policies are generally national in scope, they do also address the special requirements of the island of Gozo, which is characterised by double insularity and associated disadvantages such as transaction costs. It is also important to note that national and EU Cohesion policies are closely intertwined and viewed as complementary, to the extent that, some initiatives for Gozo aside, there is no distinct national policy for promoting economic, social and territorial cohesion, that is, one which is not co-financed by the EU Cohesion policy.

### Objectives

The key policy documents are the *2007-13 National Strategic Reference Framework (NSRF)* and the *2008-10 National Reform Programme (NRP)*. To the extent that these address cohesion objectives, this is essentially in *national* economic terms and includes the need "to sustain and develop a dynamic, high value added economy founded on competence, skills and excellence and one which is capable of sustaining a high standard of living for all citizens";<sup>1</sup> the NRP defines the main macroeconomic policy objective as being to "achieve sustainable economic growth and ensure real convergence with EU average income levels; and to generate a high level of employment and secure a relatively low unemployment rate."<sup>2</sup> Nevertheless, there is explicit recognition of the need to improve accessibility, including the link between Malta and Gozo, as a key factor in improving overall economic performance and the general standard of living. This is reflected in the policy document *Eco Gozo: A Better Gozo (2010-1212)* which aims to exploit the island's assets using sustainability as the core value to drive development. The focus is on the need for Gozo to develop by exploiting its regionally distinct potential which will in turn bring about economic and social convergence.

### Regional problem

As mentioned, the primary focus of economic development policy is Malta is *national* and concerned with narrowing disparities with the EU average. However, internally, an important issue is the disparity between Malta (the largest island) and Gozo. Gozo is around one-quarter of the size of Malta and contains about eight percent of the Maltese population, but above all is characterised by double insularity which inhibits accessibility and increases transaction costs for residents, businesses and visitors. Growth rate differentials between Malta and Gozo are such that disparities in GDP per head have widened since 2000. Moreover, analyses of migration suggest that the Gozitan working population is increasingly attracted to employment opportunities on the main island. Small islands such as Malta, and even more so Gozo, are considered particularly vulnerable to external shocks and various policy documents have outlined the challenges considered to affect Gozo disproportionately. These include: decreasing population of working age; limited educational opportunities; lower employment rate; lack of adequate support

structures for small firms; poor road infrastructure; environmental fragility; high dependency on public sector employment; and skills shortages in key sectors.<sup>3</sup>

### **Policy response**

EU Cohesion policy plays an important role in domestic economic development policy in Malta. Indeed, EU and domestic systems for promoting economic, social and territorial cohesion are closely intertwined.

Nevertheless, in terms of *narrow regional policy*, a distinct national policy programme - *Eco Gozo: A Better Gozo (2010-2012)* also operates. This national initiative is supported financially by the Maltese Government. As stated in the strategy, the “Government will ensure that it contributes as much as possible to provide the resources required for the implementation of this vision”. This does not preclude the seeking of support of EU funding for particular initiatives outlined in the vision. *Eco Gozo* has the following six aims: quality investment for more sustainable jobs; better quality of life; less impact on the environment; a ‘wholesome’ natural and cultural environment; a caring society for all; and sustaining the island’s identity. The programme has a budget of €25 million for the period 2010-12 and comprises a number of initiatives including: support for SMEs; incentives to invest in Gozo; improvements in internal transport; promotion of research and development in agriculture; training and education. Gozo is also supported through the Socio-Economic Development Plan for Gozo 2005-10, which promotes a number of broad development goals for the island. As part of this, economic development is promoted through incentives for investment and regeneration in Gozo and the development of an industrial park. Last, the 2010 budget mentions a number of capital projects and specific aid measures to mitigate the impact of the crisis including a tax credit increase from 40 percent to 60 percent for firms investing in Gozo.

Reflecting the small size of the country, there is no *broad regional development policy*. Instead, in addition to specific assistance for Gozo, policies tend to be *sectoral with explicit cohesion objectives*. However, it should be noted that such policies - most prominently employment, promotion of entrepreneurship and enhancement of human capital and skills - are integral to the NSRF and co-funded by EU Cohesion policy.

### **Policy features**

Domestic policy is closely intertwined with EU Cohesion policy and there are no laws or frameworks explicitly promoting economic, social and territorial cohesion *per se*. However, there are distinct domestic initiatives (in addition to co-financed measures) such as the initiatives outlined in the Eco-Gozo document to address the specific disadvantages facing the island of Gozo. Moreover, the Ministry for Gozo has a specific budget and the island is, in addition, given specific budgetary allocations within sectoral initiatives.

### **Importance of Cohesion policy**

EU Cohesion policy plays an important role in developing domestic policy in Malta. The two are managed and implemented in a closely integrated manner. Indeed, due to the size of the country and for logistical reasons, the funding mechanisms for EU Cohesion policy and

national policy are centralised and, to avoid duplication of resources, national and EU systems are not distinct but rather complement each other.

Long term national development strategies in Malta are strongly influenced by EU Cohesion policy. The overall vision 2007-2013 is underpinned by the dual goals of *Convergence* and *Cohesion*. Strong links between national and European cohesion policy are clear from the NSRF and the NRP, with the Lisbon agenda taking on a central guiding role: “*Cohesion policy for the period 2007-2013 can be characterised by a strengthened strategic approach with two new elements: the Community Strategic Guidelines’ at European level and the National Strategic Reference Framework (NSRF) at the Member State level. Both elements as presented in the draft Council Regulation of 11 July 2004 are aimed at a better integration of the Community priorities into national and regional development programmes.*”<sup>4</sup>

Moreover the relative importance of EU Cohesion policy is also evident from the substantial proportion of projects aimed at social, economic and territorial cohesion in Malta which are outlined in national policy documents and which are funded through the specific allocation of funds obtained through the Cohesion Fund, Structural Fund (ERDF) and European Social Fund (ESF). With respect to Gozo, the specific allocation of 10 percent of the funds earmarked for the needs of the island also reflects the link between EU Cohesion policy and the design of national policy. Furthermore the disbursement of the Cohesion Fund to date is an indication of the relative weight given to Gozo and the use of these funds to achieve regional cohesion within the Maltese islands. Indeed, a significant proportion of EU Cohesion Fund allocations have already been targeted directly at improving accessibility and infrastructure in Gozo.

### **Impact of the crisis**

The effect of the crisis has been disproportionately hard on Gozo. While both Malta and Gozo were relatively insulated from the banking crisis, due to local banks having unusually low risk and diversified portfolios, the islands felt the second-round effects of the global recession that followed the crisis. Since Gozo often receives residual trade in terms of tourism and investment directed at Malta, a decrease in activity in these sectors in Malta resulted in much a more severe decrease in Gozo.

In the Eco-Gozo document, which is the only policy document published post the financial crisis, there is a stronger emphasis on Gozo pursuing a policy direction that is not necessarily linked to the Maltese national economy in terms of specialisation and growth areas. This is a reflection of the need for diversification between the islands and the need for Gozo to find a development path that may be different in nature, since the two islands have different comparative advantages.

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### **ENDNOTES**

<sup>1</sup> *National Strategic Reference Framework, 2007-13*, p 1.

<sup>2</sup> *National Reform Programme, 2008-10*, p 51.

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<sup>3</sup> *The Development Plan for Gozo (1998); The Special Needs Assessment Report (2002); The Socio-Economic Development Plan for Gozo (2006); and A Package of Measures to address Short-term Pressures and the Medium- to Long-term Development Goals of the Economy of the Island Region of Gozo (2009).*

<sup>4</sup> *National Strategic Reference Framework, 2007-13, p.8.*





## 19. NETHERLANDS

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
16.382	485.3	146.6	3097.5	41543	570208	132.4

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	10.8	10.9	10.9	11.2	11.0	11.3	11.9	11.7	
GDP(PPS) per head (NUTS3)	15.5	15.7	15.7	16.1	16.4	16.7	17.6	18.5	
Unemployment rates (NUTS2)	30.7	17.0	19.5	16.1	10.7	12.2	15.1	14.8	16.9
Unemployment rates (NUTS3)	39.7	32.4	34.3	27.2	21.6	20.4	24.5	23.9	29.1
Employment rates (NUTS2)	2.3	2.2	2.3	2.2	2.3	2.3	2.0	2.2	2.2
Employment rates (NUTS3)	4.2	3.9	3.4	3.9	3.8	3.7	3.6	3.9	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

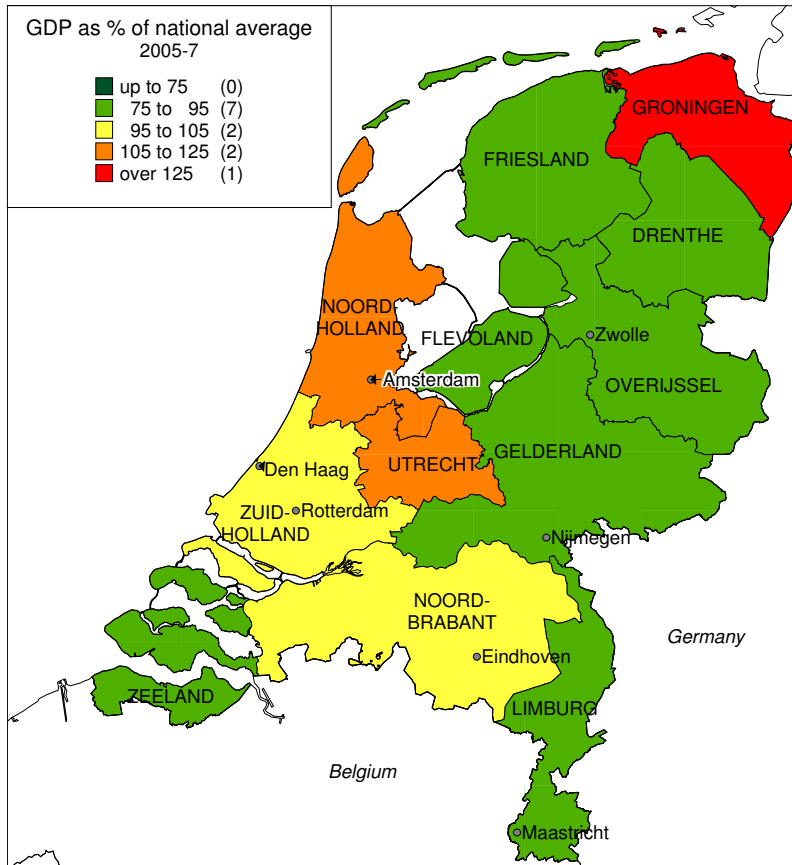
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Netherlands	23300	25600	26400	27300	26800	28000	29400	31000	32900
Min	17200	18500	19400	19800	20000	20700	21600	23900	25800
Max	29600	32100	33700	34000	32800	34000	36100	41100	41100
<b>GDP(PPS) per head NUTS 3</b>									
Netherlands	23300	25600	26400	27300	26800	28000	29400	31000	32900
Min	14800	16000	15800	16200	16000	16100	16900	17500	18500
Max	35700	38600	39400	43100	42200	44800	46800	52200	51400
<b>Employment rates NUTS 2</b>									
Netherlands	60.2	61.8	62.8	63.1	62.3	61.9	61.9	62.8	64.0
Min	54.8	57.6	58.2	59.5	57.9	57.6	58.0	58.3	59.2
Max	64.5	68.2	67.7	67.5	68.0	66.7	65.9	68.2	69.1
<b>Unemployment rates NUTS 2</b>									
Netherlands	3.6	2.9	2.3	2.8	3.7	4.5	4.7	3.9	3.2
Min	2.6	2.4	1.6	2.2	2.4	3.4	3.3	2.7	2.1
Max	8.4	4.5	3.8	4.2	4.9	6.4	6.6	5.2	4.9
<b>Unemployment rates NUTS 3</b>									
Netherlands	3.6	2.9	2.3	2.8	3.7	4.5	4.7	3.9	3.2
Min	1.5	1.6	na	1.3	2.2	2.7	3.1	2.3	1.8
Max	9.9	8.8	na	6.2	7.0	9.8	10.8	5.8	5.4
<b>Disposable household income (PPS) per head NUTS 2</b>									
Netherlands	11581.9	12281.1	13012.4	13941.2	13207.1	13582.0	13987.8	14423.3	15569.1
Min	10790.2	11321.1	11568.8	12559.9	11975.3	11856.6	12153.3	12605.9	13675.3
Max	12538.4	13155.1	14251.8	15815.3	14408.4	14708.0	15356.9	15981.5	17061.4

Source: Eurostat

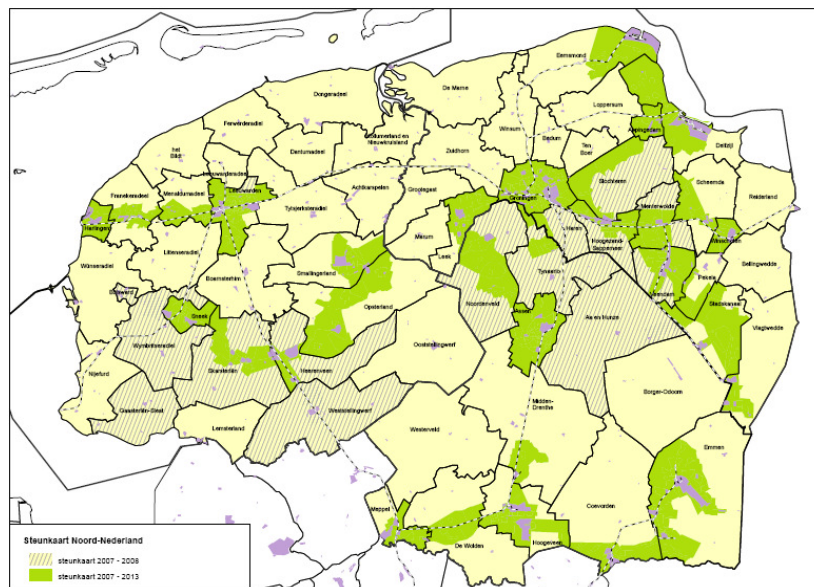
**Map 1: Regional GDP per head (2005-7) % of national average**



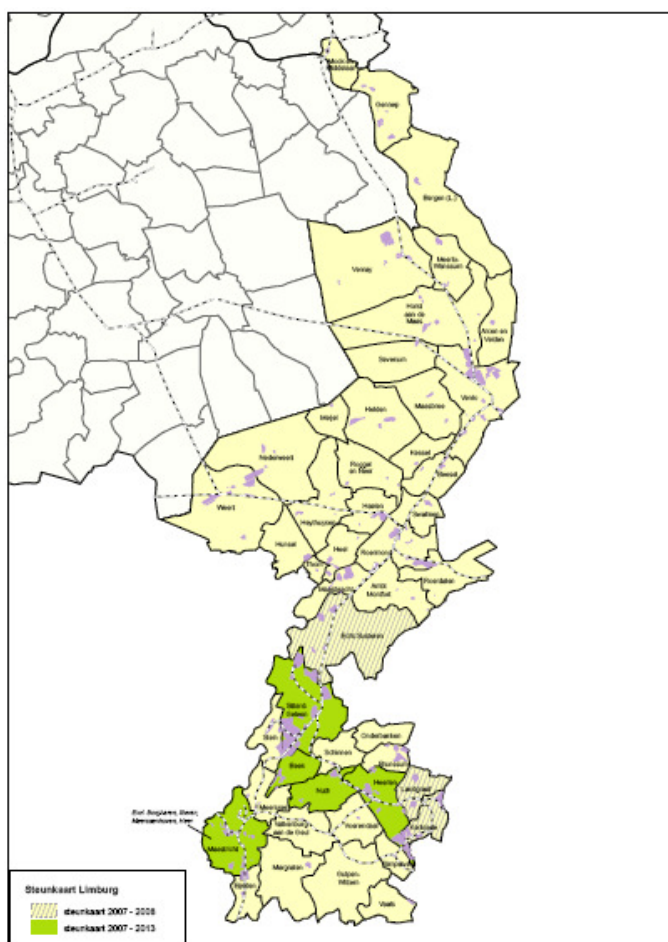
**Note:** Groningen has the highest GDP per capita in the Netherlands; however, it is important to stress that this is inflated by the presence of natural gas facilities and that, in practice, the region is one of the targets of national regional policy.

**Source:** Own elaboration from Eurostat data

**Map 2a: Assisted areas in the North of the Netherlands**



**Map 2b: Assisted areas in Limburg**



Source: Dutch Ministry of Economic Affairs

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.014	0.006	0.005	0.004	0.011	0.003
<b>EfD</b>	3.181	2.948	2.872	2.793	2.892	3.184
<b>Social protection</b>	26.5	26.4	26.0	27.0	26.8	
<b>Cohesion policy</b>	0.046	0.072	0.080	0.086	0.044	0.113

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
				1660	247	1907

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
1691.857	0.052	15.0	45.2	0.0388	9.7

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
<b>MEZ region-specific economic policy: budget commitments</b>	<b>Annual av 2007-13</b>	<b>2007-09</b>
• Industrial estates	€21.6mn	0.0034
• Regional programmes (Peaks in the Delta)	€79.0mn	0.0139
• Central investment premium	€16.8mn	0.0039
<b>Total</b>	<b>€117.4mn</b>	<b>0.0212</b>
<b><i>Sectoral policies with Cohesion orientation:</i></b>		
• Compensation for cancelled fast rail link to the north	€30 mn (see note)	-
• FES strong regions policy (clusters): annual average 2007-11	€25mn	0.0043

Note: MEZ is the Ministerie van Economische Zaken, the Ministry of Economic Affairs. Overall compensation for the cancellation of the fast rail link to the north, as announced in June 2008, is some €2.1bn, of which €1.8bn is for regional infrastructure and €300 mn for regional economic development, split evenly between the regional level and the MEZ. This funding is spread over a 10-12 year period, hence the €30 mn annual estimate. The % of GDP figure involves setting budget commitments for each year against GDP for 2007, 2008 and 2009 respectively and then calculating the average.

Source: National expert's report. The figures for MEZ-specific budget commitments are drawn from Ministry of Finance, *Rijksbegroting 2009, XIII Economische Zaken, Article 3*.

## NETHERLANDS

### Overview

A strong programme-based approach to spatial economic development has been followed since 2004 when the *Peaks in the Delta* policy memorandum was published.<sup>1</sup> Under *Peaks in the Delta*, the focus shifted from instrument-based spatial policymaking (regional investment aid, industrial estates, big city policy, tourism support, regional programming, the Structural Funds) to geographic programmes targeting regional strengths. At the same time, the Spatial Economic Policy Directorate of the Ministry of Economic Affairs was reorganised along regional lines.<sup>2</sup> With an active regional presence and enhanced budgetary flexibility, the Ministry much increased its scope to engage with development opportunities in the regions which are in line with national priorities. However, the stress on regional strengths means that the economic cohesion component to policy is minor - low-key regional aid; an enhanced *Peaks in the Delta* budget in the north (but only on a transitional basis); and specific support for disadvantaged urban areas (social more than economic cohesion). On the other hand, territorial cohesion (as reflected in the policy weight attached to spatial planning) remains important. Finally, domestic (*Peaks in the Delta*) and EU programmes are delivered separately, except in the north where they are combined in the *Koers Noord* programme.<sup>3</sup>

### Objectives

*Peaks in the Delta* highlighted the need to restore the international competitiveness of the Dutch economy and the role of spatially-targeted initiatives to remove regional obstacles to national growth. From this, a new policy goal was developed. “*The government aims to stimulate economic growth in all regions by exploiting region-specific opportunities of national significance*”.<sup>4</sup> This objective of building on regional strengths still underpins Dutch regional policy; the absence of an explicit cohesion component reflects the small size of the country, the relative ease of mobility and limited regional disparities.

### Regional problem

A fundamental interdepartmental review of regional policy in 2004<sup>5</sup> argued that the disparities between the north and the rest of the country were small and that the emphasis should be on stimulating economic development throughout the country. Against this, the northern provinces consider that they continue to be characterised by relative socio-economic deprivation. *Peaks in the Delta* concluded that the “*relatively modest prosperity gap is linked to differences in age composition, education, labour participation and unemployment. These factors are difficult to influence through policy*”.<sup>6</sup> It thus shifted the policy focus from traditional problem regions, mainly in the north but also in South Limburg, to support for regional strengths in all regions.

### Policy response

An overview of planned spending on different elements of region-specific economic policy is provided in Figure 8. Compared to *Peaks in the Delta* projections in 2004, budgets have grown markedly, due mainly to enhanced support for regional programmes (both *Peaks*

support and ERDF co-finance). In addition, but not included in the figure, a further €125 million has been made available for “strong regions” (2007-11). The original plan to switch funding from the north to the all-region *Peaks* programmes was delayed by transitional provisions and extra ERDF co-finance. Favourable funding for the north seems likely to continue through compensation for the cancellation of the fast rail link to Groningen.

**Figure 8: MEZ region-specific economic policy: budget commitments 2007-13 (€mn)**

	2007	2008	2009	2010	2011	2012	2013
Industrial estates	29.0	14.8	14.2	15.8	26.8	25.5	25.4
Regional programmes ( <i>Peaks</i> )	62.4	109.5	69.7	67.8	92.7	75.4	75.4
Central investment premium	31.5	23.8	12.5	12.5	12.5	12.5	12.5
ERDF co-finance	3.9	247.2	7.2	7.2	7.2	7.2	11.2
Tourism-related	19.1	18.0	17.9	17.7	17.5	17.5	17.3
ROMs	8.8	7.7	7.6	7.6	7.1	7.1	7.1
Urban economy		5.0	1.9	0.2			
<b>Total</b>	<b>154.7</b>	<b>426.0</b>	<b>131.0</b>	<b>128.8</b>	<b>163.8</b>	<b>145.2</b>	<b>148.9</b>

**Source:** Ministry of Finance, *Rijksbegroting 2009, XIII Economische Zaken, Article 3*, see [http://www.rijksbegroting.nl/2009/voorbereiding/begroting,kst119609b\\_8.html](http://www.rijksbegroting.nl/2009/voorbereiding/begroting,kst119609b_8.html) (accessed on 27.10.2010).

The sole national regional aid is the Investment Premium (IPR). Its annual budget fell from over €23 million in 2002 to €13 million for 2004-06 and there were doubts about its continuance. However, support was provided from the government (concerned about international competition for mobile investment) and the parliament (following intensive lobbying). The scheme was notified to the European Commission for 2007-13 with an annual budget of €13.5 million. Aid is available only in parts of the north (15 or 10 percent ceiling, depending on location) and South Limburg (10 percent). Only 7.5 percent of the population is located in areas eligible for support.

The all-region *Peaks* approach to economic development won the support of the new government which came into office in 2007.<sup>7</sup> It was viewed to have contributed significantly to stimulating regional alliances and partnerships around agreed regional priorities. The policy operates through six regional programmes, each with a separate programming document, individual objectives and specific targets (aligned with national policy). The programmes are based on regional agendas which bring together local authorities (provinces), businesses, knowledge institutes and the Ministry of Economic Affairs (triple helix approach), with the Ministry providing the secretariat. The north is different, with the *Koers Noord* programme bringing together *Peaks* support and the Structural Funds and with the three northern provinces (SNN)<sup>8</sup> responsible for programme execution and administration. Full implementation of *Peaks in the Delta* began in 2006 and the current phase ends in 2010. However, it is positively viewed, particularly in encouraging regional partnership and new investment, with high SME involvement, and is set to continue (albeit with slightly amended objectives and decentralised implementation).<sup>9</sup>

Under the *Peaks* approach, regional policy is closely related to other national policies through alignment with the National Spatial Strategy.<sup>10</sup> First, it saw a need to create high

quality industrial estates, with a focus on the upgrading of brownfield sites.<sup>11</sup> Second, it stressed the competitive importance of the port of Rotterdam and Schiphol airport. Third, it made the case for specific infrastructure improvements to enhance accessibility to prime urban centres and growth points. And fourth, it highlighted key connections to various national policies: innovation policy (with its development of region-specific aspects);<sup>12</sup> the urban economy policy framework (which viewed cities and urban networks as the driving force behind economic development);<sup>13</sup> and the new tourism agenda (which emphasised the role of coastal areas and large cities as international tourist attractions).<sup>14</sup> There is thus a broad alignment of *Peaks in the Delta* to a range of national policies. More recently, a “strong regions” policy channelled an extra €125 million of regional policy funding through the FES (2007-11).<sup>15</sup> It funds four main projects: the mainports in the Randstad; energy investment in Groningen; food in Wageningen; and Brainport Southeast Netherlands. The aim is to strengthen these regions through enhanced infrastructure provision. While there is a spatial component to these various initiatives, there is little orientation to cohesion; rather the focus is on strengthening the overall competitive position of the economy.

There are, however, two other aspects of development policy which have a cohesion element. One is a policy targeted at disadvantaged urban districts, which aims to turn problem neighbourhoods into socially- and economically-strong areas;<sup>16</sup> the other flows from the decision to abandon the fast rail link to the north. In June 2008, compensation of €2.1 billion was announced for the north (and north Flevoland). Of this, €1.8 billion is for regional infrastructure and €300 million for regional economic development - split evenly between the regional level and the Ministry of Economic Affairs. This means the north will still benefit from enhanced regional development funding post 2010. Indeed, over what had been a planned 10-12 year construction phase for the high-speed link, this funding exceeds that under the 2000-06 *Kompas* programme for the north (the forerunner of *Koers Noord*).

Finally, although there is fiscal equalisation to ensure broadly equivalent service provision across the country, this does not have an explicit economic cohesion orientation.

### **Policy features**

The overall framework for Dutch spatial economic development policy is provided by *Peaks in the Delta*. As noted, this is not cohesion-oriented, but rather promotes regional strengths and focuses on the regional contribution to the competitiveness of the Dutch economy.

The key objectives of regionally-related policies do not directly address cohesion. The policy objective in the *Peaks* memorandum is: *to stimulate economic growth in all regions by exploiting region-specific opportunities of national significance*.<sup>17</sup> The broader National Spatial Strategy highlights four broad goals which are, similarly, not cohesion-oriented: *“strengthening the international competitive position of the Netherlands, promoting strong cities and a vital, vibrant countryside, securing and developing important national and international spatial values, and ensuring public safety”*.<sup>18</sup>

In terms of implementation, the Dutch government operates in line with the slogan *“centralised if necessary, decentralised if possible”*. The 2007 coalition agreement argues for reducing policy layers, distinguishing between policy formulation and implementation. It



strongly favours decentralisation to the provinces and municipalities: “*half the specific-purpose grants will be turned into generic grants for the municipalities, and decentralisation will be given a further boost by introducing budget transfers and/or expanding local taxation while limiting state taxes*”.<sup>19</sup> Although a more decentralised approach is part of the government’s programme,<sup>20</sup> the practical impact on the already regionalised *Peaks* approach remains to be seen, especially in a context where national-regional cooperation is perceived to be working well.

Policy coordination is a part of the *Peaks* approach. It brings together the relevant outputs of numerous national strategic documents (in the fields of spatial planning - Ministry of Housing, Spatial Planning and the Environment (VROM), transport - Ministry of Transport, Public Works and Water Management, industrial estates - Ministry of Economic Affairs and Ministry of VROM, innovation - Ministry of Economic Affairs, urban - Ministry of Interior and Kingdom Relations and tourism - Ministry of Economic Affairs) and applies them in a coordinated (programme-based) way in a regional context. It provides a national vision of regional economic development, a framework to help coordinate policy in the regions. Coordination is further promoted by the regional *Peaks* teams, which ensure central involvement at the regional level, helping to match up projects and funding sources.

### Importance of Cohesion policy

In strategic terms, there is significant alignment between domestic regional policy and EU Cohesion policy. The Cohesion policy focus on economic growth and better jobs, based around the competitiveness agenda and Lisbon strategy, chimes with domestic priorities. In addition, a core principal of the 2007-13 NSRF is that it be connected to already-existing national policies in order to guarantee effective allocation of funds received.

In the development of the 2007-13 programmes, the European Commission was keen for more weight to be placed on the less-developed north than was the case under the domestic *Peaks in the Delta* strategy. An overview of ERDF allocations for 2007-13 is provided in Figure 9.

**Figure 9: Allocation of Regional Competitiveness and Employment ERDF funds and associated co-finance 2007-13 (€ mn, 2004 prices)**

	SF 2007-10 %	SF 2011-13 %	SF funds %	SF amount	Amount per head	Co- finance	Total
North	27.5	11.6	20.7	152.4	13.0	85.0	237.4
East	19.8	19.8	19.8	145.6	6.8	39.5	185.1
West	33.0	42.9	37.2	274.3	5.2	81.6	355.9
South	19.7	25.7	22.3	164.2	6.0	48.8	213.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>736.5</b>	<b>6.5</b>	<b>255.0</b>	<b>991.5</b>

**Source:** Ministry of Economic Affairs, Letter to the Dutch Parliament, 17 May 2006. Co-financing for the north was increased by €55 million as a result of the parliamentary debate.

The northern allocation is based on a four-year transition phase (rather than the seven years favoured by the Commission) and reflects the Commission’s proposal that no region should lose more than 25 percent of its 2000-06 ERDF funding. There was also domestic

support for enhanced funding for the north, with parliament providing additional co-finance. On one level, 2007-10 can be viewed as a transitional phase leading to broadly uniform funding for the four Dutch regions thereafter;<sup>21</sup> on the other hand, the front-loading of support for the north has to be set in the context of the additional funding post 2010 to compensate for the abandonment of the fast rail link.

The administration of Structural Funds programmes and *Peaks in the Delta* is separate in the Netherlands, except in the north where they have been brought together within *Koers Noord*. It was noted earlier that the central level has a significant influence on *Peaks* programmes, not least through its involvement at the regional level. In contrast, the Structural Funds have historically been highly decentralised, with for instance, their management, implementation and evaluation all being in sub-national hands for 2000-06. However, the national role has grown in the current phase, with respect to programme development, more general coordination and, especially, management and control (including centralised audit and certifying authorities). Moreover, under the 2007-13 NSRF, the Structural Funds are much more closely integrated with existing national policies, with funding decisions taken as part of the same decision-making process.

The Structural Funds have impacted on domestic regional development policies in a number of ways: they created a framework of regional strategy development and policymaking which informed the (nationally-driven) *Peaks in the Delta* approach; they contributed to the trend towards the regional delivery of policy; they have helped to promote partnership working (especially, in 2007-13, between cities and provinces); and, partly in response to the highly decentralised approach adopted for 2000-06, they have encouraged more national-regional coordination in programme design and, especially in the current phase, management and implementation. On the other hand, there continue to be considerable concerns about the administrative burdens associated with the Structural Funds, creating tensions between control and effective policy implementation.

### **Impact of the crisis**

The entire country is still suffering from the consequences of the economic crisis. According to regional reviews of the Dutch Planning Office, all of the core economic indicators (GDP, investment and employment) have been impacted by the recession. However, the regions with more of an industrial character (such as Limburg and Noord-Brabant) are facing the greatest challenges.<sup>22</sup> The Planning Office suggests that these southern provinces (and Zeeland) will be impacted most by the crisis (due to the strong presence of metals and chemicals), while Flevoland, Groningen and Utrecht will face below-average change (reflecting their reliance on stable sectors such as agriculture, the food industry and knowledge-intensive business services, respectively). The policy response has been a national one, with extra investment (€6 billion in 2009 and 2010) in the fields of employment (especially youth unemployment), education and knowledge, sustainability, infrastructure and housing and the expansion of liquidity. As far as domestic regional policy is concerned, the crisis has not had a direct policy impact; regional policy is seen as a longer-term structural policy rather than a solution to the crisis. With respect to Structural Funds programmes, there have been difficulties satisfying funding demands for innovative projects in a situation of a general lack of co-finance.

## ENDNOTES

<sup>1</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004 (Ministerie van Economische Zaken, *Pieken in de Delta: Gebiedsgerichte Economische Perspectieven*, The Hague, July 2004). This policy memorandum is available in English at <http://appz.ez.nl/publicaties/pdfs/04126.pdf>

<sup>2</sup> While there had always been a regional dimension to the work of the Directorate, the reorganisation involved staff being grouped within regionally-oriented teams rather than teams based around specific policy instruments.

<sup>3</sup> On the other hand, even outside the north there are, of course, links between *Peaks in the Delta* and the operational programmes (OPs), not least given that *Peaks in the Delta* provided the basis of the NSRF, around which the OPs were generally developed.

<sup>4</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, Section 1.2

<sup>5</sup> 'Regionaal economisch beleid in de toekomst' - IBO 2003-2004, nr5 (Regional Economic Policies in the future, IBO 2003-2004, nr5)

<sup>6</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, Section 1.3

<sup>7</sup> Ministerie van Algemene Zaken, *Samen werken samen leven, Beleidsprogramma Kabinet Balkenende IV 2007-2011*, June 2007

<sup>8</sup> The SNN (*Samenwerkingsverband Noord Nederland*) represents the provinces of Groningen, Drenthe and Friesland. It coordinates and is responsible for economic development policy in the north. It administers the current *Koers Noord* programme, which utilises both *Peaks* support and the Structural Funds, and managed its predecessor Structural Funds programme, the 2000-06 *Kompass voor het Noorden*. The Structural Funds element to *Koers Noord* amounts to €152.4 million, with a further €85 million in the form of national co-finance (total €237.4 million - see Figure 8). This funding has been drawn forward into the 2007-10 period. Also for 2007-10, *Peaks in the Delta* funding for the north totals €80 million, to which another €35-40 million of regional resources have been added. This gives a total 2007-10 budget of close to €360 million. The Structural Funds element accounts for just over two-fifths of this.

<sup>9</sup> Tweede Kamer, vergaderjaar 2009-2010, 31 3111, nr. 38

<sup>10</sup> Ministry of Housing, Spatial Planning and the Environment, *Spatial Planning Memorandum: Room for Development*, April 2004 (*Nota Ruimte*).

<sup>11</sup> Ministry of Economic Affairs, *Actieplan Bedrijventerreinen 2004-2008*, The Hague, May 2004, since updated through a new agreement between the Ministries of Spatial Planning and Economic Affairs, provincial (IPO) and municipal (VNG) bodies.

<sup>12</sup> Ministry of Economic Affairs, *Action for Innovation*, 2003. A more recent review of Dutch innovation policy can be found in the Mid Term Review Programmatiese Aanpak van het Innovatiebeleid (Mid Term Review programmed approach of innovation policy), June 2009

<sup>13</sup> Ministry of the Interior, *Nota Samenwerken aan de Krachtige Stad: Uitwerking van het stelsel stadsbeleid 2005-2009*, 2004

<sup>14</sup> Ministry of Economic Affairs, *Vernieuwde Toeristische Agenda*, 2003

<sup>15</sup> The FES (Economic Structure Enhancement Fund) utilises receipts mainly from North Sea gas extraction to support projects which strengthen the economic structure of the country.

<sup>16</sup> There are 40 such designated neighbourhoods, with complex and long-standing welfare problems. *Actieplan Krachtwijken* (Action Plan Strong Neighbourhoods), July 2007. A total of €157 million has been made available for these districts over the 2008-10 period. The economic crisis has impacted on the private finance available to develop such areas, with the result that the original objectives will only be achieved in the longer term.

<sup>17</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, Section 1.2

<sup>18</sup> Ministry of Economic Affairs, *Peaks in the Delta: Regional Economic Perspective*, The Hague, July 2004, English summary, page 2

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<sup>19</sup> Coalition agreement, English version, Section 6. This is available at <http://www.government.nl/policy/balkenende4/regeerakkoord/index.jsp>

<sup>20</sup> Ministerie van Algemene Zaken, *Samen werken samen leven, Beleidsprogramma Kabinet Balkenende IV 2007-2011*, June 2007, Section 6.2

<sup>21</sup> In this context, it should be noted that the north holds 10.5 percent of the national population.

<sup>22</sup> CEC Rapportage Verkenning gevolgen economische crisis, (CEC Report Exploration consequences economic crisis) January 2009



## 20. POLAND

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
38.121	122.0	na	na	312685	310075	54.3

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	17.7	17.6	18.2	18.1	18.3	18.7	19.4	19.5	
GDP(PPS) per head (NUTS3)	na	17.2	16.2	17.3	17.4	31.3	32.3	34.4	
Unemployment rates (NUTS2)	22.5	18.9	17.9	16.5	15.8	15.9	14.6	12.1	14.2
Unemployment rates (NUTS3)	37.8	39.5	36.8	29.1	28.0	25.8	25.4	23.6	na
Employment rates (NUTS2)	4.8	6.9	7.2	7.3	7.2	6.4	5.6	5.1	4.5
Employment rates (NUTS3)	11.2	11.7	12.0	11.1	10.1	9.4	8.5	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

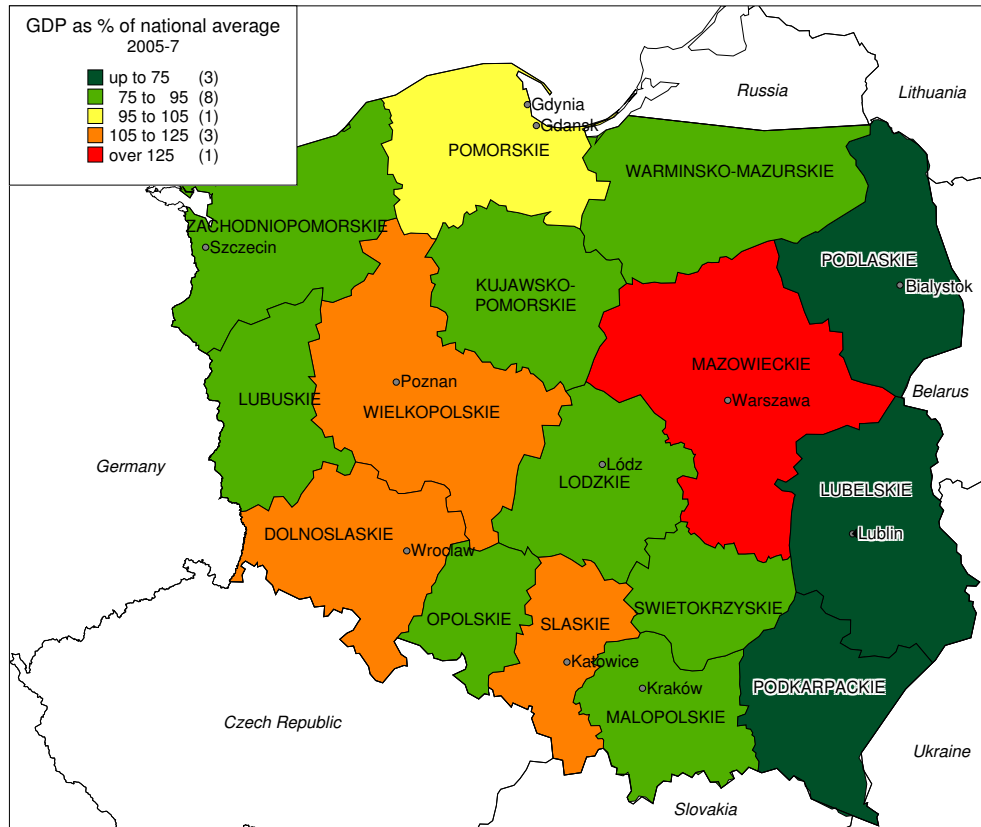
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Poland	8600	9200	9400	9900	10100	11000	11500	12300	13600
Min	6100	6400	6600	6900	7200	7600	7900	8300	9100
Max	13200	13900	14700	15300	15800	16700	18300	19600	21700
<b>GDP(PPS) per head NUTS 3</b>									
Poland	8600	9200	9400	9900	10100	11000	11500	12300	13600
Min	5000	5200	5300	5700	5800	6200	6600	7000	7700
Max	25400	26100	26900	28900	30200	31100	34500	37100	41400
<b>Employment rates NUTS 2</b>									
Poland	49.6	47.5	46.1	44.4	44.0	44.3	45.2	49.6	48.5
Min	45.3	42.1	41.5	39.5	39.2	40.2	41.6	45.1	43.6
Max	52.6	51.0	50.4	49.0	48.2	47.7	48.6	53.5	51.9
<b>Unemployment rates NUTS 2</b>									
Poland	12.3	16.1	18.2	19.9	19.6	18.9	17.7	13.9	9.6
Min	9.3	11.7	13.0	16.2	16.0	14.6	14.3	11.3	8.1
Max	19.6	23.6	24.3	26.3	26.0	24.9	22.8	17.3	12.7
<b>Unemployment rates NUTS 3</b>									
Poland	12.3	16.1	18.2	19.9	19.6	18.9	17.7	13.9	9.6
Min	na	na	na	na	na	na	9.7	7.1	4.4
Max	na	na	na	na	na	na	28.5	25.9	21.0
<b>Disposable household income (PPS) per head NUTS 2</b>									
Poland	5479.8	5791.0	6085.5	6279.8	6316.5	6703.4	6843.6	7247.3	8095.1
Min	4361.0	4502.3	4708.2	4809.9	4856.7	5075.7	5213.5	5573.7	6231.5
Max	6937.8	7450.0	7843.9	8094.6	8077.7	8546.5	8721.5	9165.8	10247.5

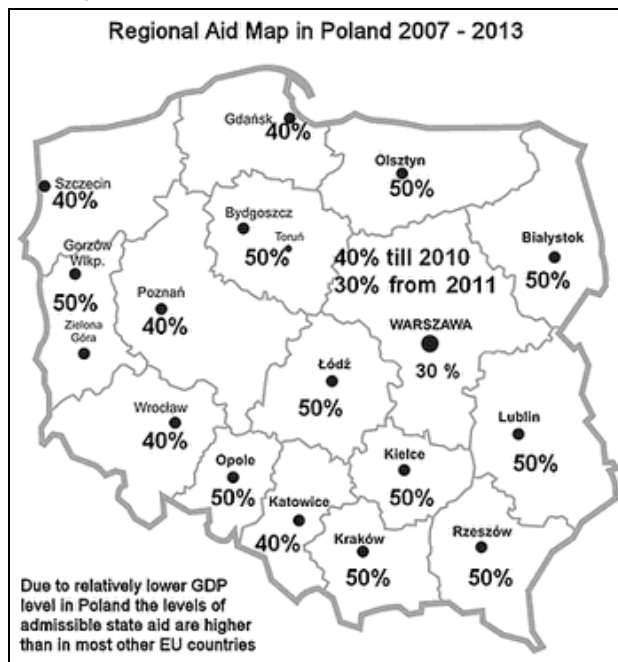
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

**Map 2: Regional aid map 2007-13**



Source: [http://www.paiz.gov.pl/nawosci/?id\\_news=1256](http://www.paiz.gov.pl/nawosci/?id_news=1256)

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.102	0.096	0.077	0.148	0.095	0.314
<b>EfD</b>	3.166	3.107	3.441	3.865	3.945	4.398
<b>Social protection</b>	20.7	19.7	19.2	19.0	17.8	
<b>Cohesion policy</b>	0.000	0.413	0.322	0.717	1.356	1.272

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

<b>Cohesion Fund</b>	<b>Convergence</b>	<b>Phasing-out</b>	<b>Phasing-in</b>	<b>RCE</b>	<b>Territorial Cooperation</b>	<b>Total</b>
22176	44377				731	67284

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

<b>Total (€mn)</b>	<b>EU commitment appropriations</b>			<b>National cofinancing</b>	
	<b>Annual av. % 2004 GDP</b>	<b>Annual av. € per head</b>	<b>EU percent co-finance</b>	<b>Annual av. % 2004 GDP</b>	<b>Annual av. PPS per head</b>
59548.646	4.358	222.5	79.5	0.6908	93.2

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<b>Narrow and broad regional policies:</b>		<b>% of GDP</b>
<ul style="list-style-type: none"> <li>Special system of direct grants (2005-July 2008 total spend of PLN 861.8mn) - annual amount</li> </ul>	PLN246.2mn	0.0221

**Source:** National expert's report.



## **POLAND**

### **Overview**

From a situation in the early-mid 1990s where finances for regional development in Poland were very limited, there are now significant levels of regional development funding available. These finances flow predominantly from the Structural and Cohesion Funds available under EU Cohesion policy, of which Poland is the biggest beneficiary in the EU, as well as under the Common Agriculture Policy. This brings with it opportunities to expand the scope and impact of regional development interventions. However, it also puts pressure on Poland's regional policy system to develop structures and processes to absorb the funds, to ensure that they contribute to strategic economic growth, and to maintain a clear vision for domestic regional development. From the mid-1990s, strategic initiatives increasingly incorporated competitiveness and productivity objectives that apply to all regions, though this was implemented on a larger scale only from 2006 after the inflow of EU funds. At the same time, the focus on traditional concerns with struggling regional economies was maintained. However, some important issues remained in terms of policy content, notably concerning the role of metropolitan centres in the development process. The reform process is ongoing and a new National Strategy for Regional Development is being finalised in 2010. Also, a protracted process of decentralising administrative reforms, launched in 1999 with the establishment of 16 self-governing regions, is continuing, especially in the field of public finances, involving further shifts of competencies from the state regional administration to the regional elected governments.

### **Objectives**

The current generation of development strategies combine equity and efficiency-related aims but with an increasing focus on the latter, at least in terms of setting priorities. The 2006 Act on Development Policy states that: "Development Policy is understood as a set of interlinked measures undertaken and implemented in order to ensure the country's sustainable development and socio-economic and territorial cohesion at national, regional and local level (...)"<sup>1</sup> The National Development Strategy (NDS) 2007-15 also combines equity- and efficiency-related aims: "To create conditions for a growth of competitiveness of all regions in such a way as to promote economic, social and territorial cohesion and aim at levelling the development opportunities of voivodships"<sup>2</sup> In the most recent strategies, there is a clear commitment to a 'place-based' regional policy model that concentrates on the endogenous potentials of all regions. Emerging strategic documents propose a 'polarisation-diffusion' model for development policy that prioritises support for Poland's most competitive sectors and centres (polarisation) alongside provisions for the diffusion of benefits through a range of instruments. The 2009 draft National Regional Development Strategy prioritises: efficient use by regions of territorially specific development potentials to attain national development objectives - long-term growth, employment and territorial cohesion; and plans to develop growth pole policy around principles of polarisation and diffusion.<sup>3</sup> The Strategy is built around three main goals: the increased competitive capacity of voivodships; greater social, economic and territorial cohesion; and faster growth, with equal development opportunities.

A similar approach has been adopted under the Concept of the Spatial Policy of the State (which is in its final stages of preparation). The move from a convergence-driven to functionally-driven approach to cohesion is reflected also in the Polish response to the EU Green Paper on Territorial Cohesion which stresses: efficient resource allocation, based on effective exchange processes and flows; the need for territories to fully develop their unique potentials; the importance of functional, networked relations between socio-economic elements; and the competitiveness of territorial systems.<sup>4</sup>

### **Regional problem**

There has been an increase in regional disparities in the post-communist period. Territorial disparities (at regional and sub-regional levels), though not remarkable in comparison to other Member States, are entrenched and growing and threaten to marginalise some of the poorest regions in the EU. Metropolitan regions have performed significantly better than non-metropolitan regions. This applies particularly to the dominance of Warsaw and its hinterland. There is a clear east/west split in economic performance: the five least-developed regions are located predominantly in rural eastern regions which share external EU border areas with poorly developed economies, and areas in the north-east are sparsely populated.<sup>5</sup> Disparities in economic performance between 'growth poles' and peripheral areas are prominent across and within regions. Finally, there are areas experiencing specific challenges of economic restructuring, notably the old industrial areas of Silesia.

### **Policy response**

It is important to note that EU Cohesion policy plays a dominant role in Polish development policies. Although some domestic development policies can be identified, an important caveat is that EU Cohesion policy and Polish domestic policy instruments quite often overlap.

In terms of 'narrow' development policy instruments, the Polish government has a special system of direct grants that support investment of strategic importance for the Polish economy. Grant support is agreed between the Ministry of the Economy and the investor for strategic investments in sectors prioritised by the government: automotive, aviation or aerospace, biotechnology, R&D and electronics. Two types of grant can be offered - an employment grant or an investment grant with a limited grant level in comparison to Cohesion policy funding (e.g. maximum threshold of 10 percent of eligible costs for new investments). In the period 2005 to July 2008, combined support from the state budget under this instrument amounted to PLN 861.8 million (€211.5 million).<sup>6</sup> The average value of support per job created was PLN 24,700 (€6,062).<sup>7</sup>

Furthermore, investment grants and tax relief are offered in Special Economic Zones (SEZ) agreed with the Commission and based on the General Block Exemption Regulation. This is a flexible, *ad hoc* instrument since government can identify 'subzones' of 'underutilised land'. The income tax relief is not differentiated territorially. Levels of investment support vary according to the regional aid map: the maximum intensity of 50 percent of investment operates in ten regions; a limit of 40 percent operates in the remaining regions, mostly in the West, except for Warsaw where the ceiling is currently 30 percent. At the end of June

2009, the total value of investment was PLZ 61.5 billion (€15.1 billion). The automotive sector was dominant (with around 30 percent of investment). In terms of regional distribution, most investment was in Western regions: Dolnośląskie (29 percent), Śląskie (24 percent).<sup>8</sup> *Ad hoc* programmes are also in place for regions in need (structural problems, natural disasters).

There are no broader development policy instruments with a cohesion orientation outside of EU Cohesion policy. Horizontal aid - be it for SMEs, for employment and job creation, for innovation and R&D or for environmental protection - has no explicit geographical aspect. Sectoral aid is geared to supporting sensitive sectors and is connected to the restructuring of whole areas of the economy and individual companies, particularly in the following sectors: shipbuilding, maritime, coal mining, the iron and steel industry, synthetic fibres, the automotive industry, agriculture and fisheries. Such sectoral policies do not have particular, cohesion-oriented objectives; any spatial dimension is only secondary or implicit. A spatial dimension is, however, present in employment policies where longer-term unemployment benefits (including social security) are provided over a longer time period in counties (*powiats*) with structural unemployment (i.e. a rate above 150 percent of the national average).<sup>9</sup>

Finally, equalisation mechanisms operate which benefit: municipalities with low tax revenues and low population density; counties with low tax revenues and high unemployment; and, regions with low population density, high unemployment and low GDP per head. The functioning of this system, though not its rationale, has been criticised, especially by those counties which are net payers (see further below).

### **Policy features**

The *National Development Strategy 2007-15* and new legislation on the principles of development introduced in 2006 strengthened strategic and administrative frameworks for regional policy design and delivery. Notable instruments include the regional (voivodship) contracts. These were established in the form of a domestic framework agreement between government and self-government authorities, under which regions received a set budget from national sectoral ministries to support investments in range of policy fields. The focus was mainly on social cohesion through major public service investments in health and education. However, in the 2007-13 period, the contracts have been used as a co-financing framework for Cohesion policy funds flowing to the regional Operational Programmes (OPs) (see below). The remaining domestic element is minor. There are plans for substantial reform of the contracts as part of the new National Strategy for Regional Development.

In terms of spatial targeting, although direct investment (FDI) grants and Special Economic Zones (SEZ) used to favour lagging areas, they now also benefit relatively well developed areas. FDI grants and SEZ support are managed by the Ministry of Economy. The Office of Competition and Consumer Protection (UOKiK, *Urząd Ochrony Konkurencji i Konsumentów*) is the main body responsible for State aid issues in Poland. Beyond this, some Ministries (including the Ministry of Regional Development) also have staff who deal with State aid issues.

### **Importance of Cohesion policy**

Cohesion policy has a significant influence on strategic objectives and development priorities in Poland. Through the implementation of regional Operational Programmes, Cohesion policy has also been able to set the regional development agenda to a significant degree. Overall, a strong ‘Lisbonisation’ process is heavily reflected in strategic documents and has been motivated by pressures from Cohesion policy. Currently, the overall level of ‘Lisbonisation’ is demonstrated by the fact that 64 percent of EU funds are earmarked for the Lisbon objective (although Poland is not obliged by the European Commission to set any such target). It is also reflected in the current emphasis on a functional, pro-competitiveness approach. However, ongoing debates on Lisbon Strategy earmarking reveal differences between the national level and regional/local elites which tend to favour support for hard infrastructure.

The scale of Structural Funds programmes in comparison to non-EU funded structural initiatives is substantial. Up to 29 percent of all public (i.e. State, regional, local) structural spending came from EU funds in 2008.<sup>10</sup> This also has a strong regional dimension: one-quarter of Cohesion policy resources are channelled via regional OPs and regional contracts. Funding for the regional OPs and contracts operates according to a ‘pro-equity’ algorithm that takes levels of GDP and unemployment rates into account, with a weighting of 10 percent each. However, 80 percent of the weight is allocated to population. This reflects a compromise between a redistributive approach and efficiency objectives: poorer eastern regions have the highest shares in funding per capita, and domestic funding outside the regional OPs and regional contracts is used to compensate for unequal treatment in four regions. Moreover, a specific OP and a related strategy for the development of Eastern Poland is seen as a further compensation measure, targeting Poland’s five poorest regions.

In terms of governance, regions are the Managing Authorities for regional Operational Programmes in the current period. However, important issues remain to be resolved concerning the division of policy competences with the national level, particularly the Ministry of Regional Development, which plays a strong coordinating role in Cohesion policy management and implementation. Generally, coordination tools and structures for development policy have mainly developed in relation to Cohesion policy. Under Cohesion policy, cross-sectoral coordination is carried out by the Ministry of Regional Development. In addition, exchange of information is institutionalised via the Joint Commission of the Government and Regional Self-Governments, and regular exchange takes place in the Assembly of Heads of Regional Governments (*Konwent Marszałków*) which can give opinions.

Structural Funds implementation has been crucial to evolving approaches to the delivery of regional development interventions. The reformed Polish model for policy delivery has, in a relatively short space of time, assimilated EU organising principles such as strategic thinking, partnership, monitoring and evaluation. However, although Cohesion policy management is subsumed under the same institutional structures as domestic development policy, there are separate arrangements for decision-making, monitoring, evaluation etc. Thus, although there has been a strong impact on actors and institutions in programmes directly linked with and co-financed by EU Cohesion policy (in terms of policy design,

management and evaluation), transfer or spillover to delivery systems for purely domestic development policies is so far limited.

### Impact of the crisis

The influence of the economic crisis on the scope and content of Polish regional policy has been quite limited. This is a result of the comparatively limited impact of the crisis on regional development in Poland (at least thus far) and the fact that Cohesion policy provides the overwhelming majority of regional policy funding. However, the onset of the crisis has sharpened tensions and debates. For instance, some of the more prosperous, net payer regions have questioned the calculation (i.e. not the general principle) of current fiscal equalisation mechanisms which are based on data from before the onset of the crisis. A two year time lag means that these richer regions have to pay relatively higher amounts in a situation of reduced income. In May 2009, an IMF Flexible Credit Line Arrangement was approved, amounting to just over \$20.5 billion over one year. The intention is to treat the arrangement as precautionary, which means that the Polish authorities do not intend to draw from it.<sup>11</sup> In July 2010, a one-year successor arrangement of roughly the same amount was approved.<sup>12</sup>

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### ENDNOTES

<sup>1</sup> Ustawa z dnia 6 grudnia 2006 r. o zasadach prowadzenia polityki rozwoju, Dz.U.06. nr 227, poz. 1658 z późn. zm.

<sup>2</sup> Ministerstwo Rozwoju Regionalnego (2006) *National Development Strategy 2007-15*.

<sup>3</sup> Ministerstwo Rozwoju Regionalnego (2009) *Krajowa Strategia Rozwoju Regionalnego; (National Strategy for Regional Development)*, draft, September 2009.

<sup>4</sup> Position of the Government of the Republic of Poland on the Communication from the Commission to the Council, the European Parliament, the Committee of the Regions and the European Economic and Social Committee: Green Paper on Territorial Cohesion - Turning territorial diversity into strength COM(2008) 616.

<sup>5</sup> Gorzelak G., Smętkowski, M. (2010), 'Regional Development Dynamics in Central and Eastern European Countries', in: Gorzelak, G., Bachtler, J. and Smętkowski, M. eds.: *Regions of Central and Eastern Europe: Development Processes and Policy Challenges*, Routledge.

<sup>6</sup> Exchange rate 13 July 2010: €1 = PLN 4.07436. This exchange rate is used in this and the following paragraph.

<sup>7</sup> Ministerstwo Gospodarki (2008) *System wspierania inwestycji o istotnym znaczeniu dla gospodarki polskiej* Warsaw, 23 września 2008.

<sup>8</sup> Ministerstwo Rozwoju Regionalnego (2009) *Załączniki do Projektu Krajowej Strategii Rozwoju Regionalnego 2010-2020*, September 2009.

<sup>9</sup> The county level consists of *powiats* (NUTS 4), a sub-regional level made up of *gminas* (municipalities) at NUTS 5.

<sup>10</sup> *Ibid.*

<sup>11</sup> International Monetary Fund (2009) 'IMF Executive Board Approves US\$20.58 Billion Arrangement for Poland Under the Flexible Credit Line', *Press Release*, 09/153, 06.05.2009.

<sup>12</sup> International Monetary Fund (2010) 'IMF Executive Board Approves US\$20.43 Billion Arrangement for Poland Under the Flexible Credit Line', *Press Release*, 10/276, 02.07.2010.

## 21. PORTUGAL

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	115.2	15.0	1572.4	92118	163891	76.0

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	21.3	22.8	22.1	23.0	22.8	23.0	23.3	22.6	
GDP(PPS) per head (NUTS3)	26.2	27.3	27.0	26.9	27.3	27.6	28.1	27.1	
Unemployment rates (NUTS2)	31.0	30.5	29.3	30.7	29.6	25.1	22.3	21.0	20.3
Unemployment rates (NUTS3)	36.7	35.9	35.4	35.7	34.9	32.7	30.3	28.5	27.1
Employment rates (NUTS2)	3.6	4.3	3.5	3.8	3.9	3.5	3.3	3.1	3.3
Employment rates (NUTS3)	7.3	7.7	7.6	7.2	6.6	7.2	7.5	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

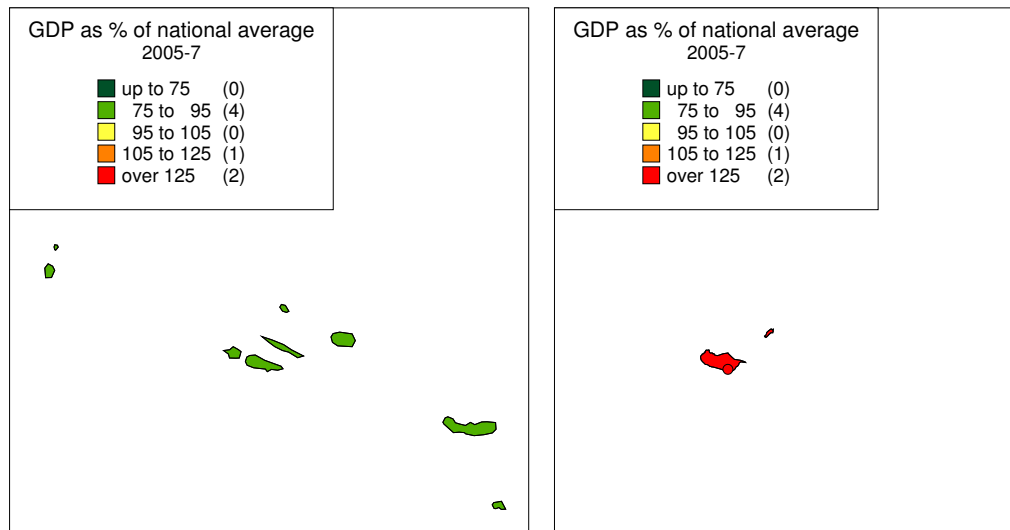
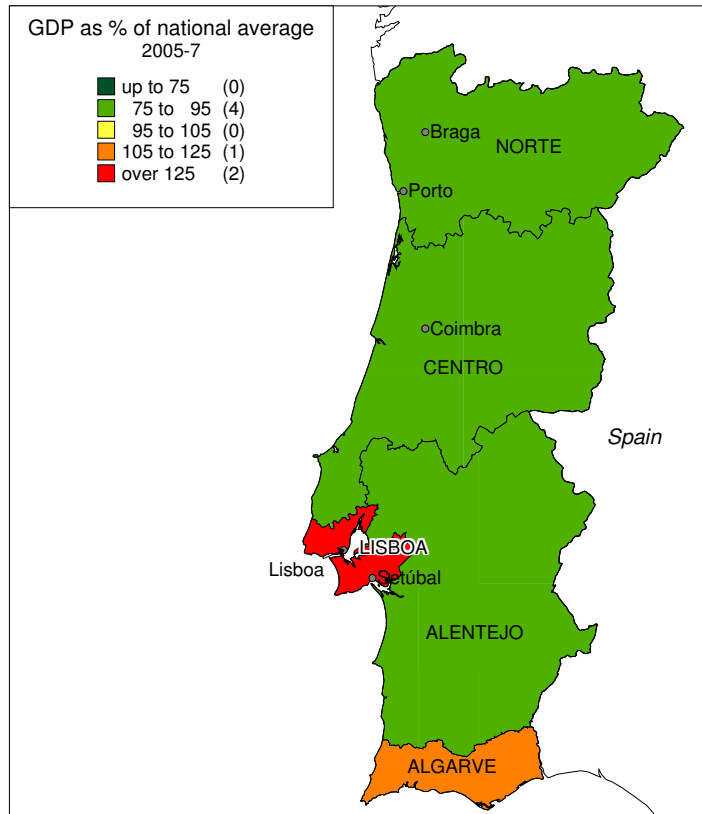
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Portugal	13900	14900	15300	15800	15900	16100	17300	18100	18800
Min	11000	12000	12600	12800	12700	12800	13700	14300	15000
Max	19700	21100	21600	22200	22400	22800	22400	25200	26100
<b>GDP(PPS) per head NUTS 3</b>									
Portugal	13900	14900	15300	15800	15900	16100	17300	18100	18800
Min	7400	7900	8200	8800	8800	8800	9600	10400	11000
Max	22300	24400	25000	25900	26300	26900	28900	29600	30600
<b>Employment rates NUTS 2</b>									
Portugal	57.8	58.6	59.1	58.9	58.2	57.8	57.5	57.7	57.6
Min	48.5	48.8	49.2	50.8	51.0	51.6	51.7	52.2	51.9
Max	62.2	64.1	63.7	64.5	64.1	63.2	62.5	63.0	63.3
<b>Unemployment rates NUTS 2</b>									
Portugal	4.5	4.0	4.0	5.0	6.3	6.6	7.6	7.7	8.0
Min	na	na	na	na	na	na	4.5	5.4	4.3
Max	na	na	na	na	na	na	9.1	9.2	9.4
<b>Unemployment rates NUTS 3</b>									
Portugal	4.5	4.0	4.0	5.0	6.3	6.6	7.6	7.7	8.0
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Portugal	8554.3	9187.5	9505.3	9612.5	9908.5	10059.4	10655.0	11060.4	11215.4
Min	7354.0	7866.0	8153.7	8124.8	8304.7	8470.5	8939.8	9309.9	9470.3
Max	10891.2	11673.9	12033.0	12377.8	12680.1	12852.3	13732.9	14110.7	14373.8

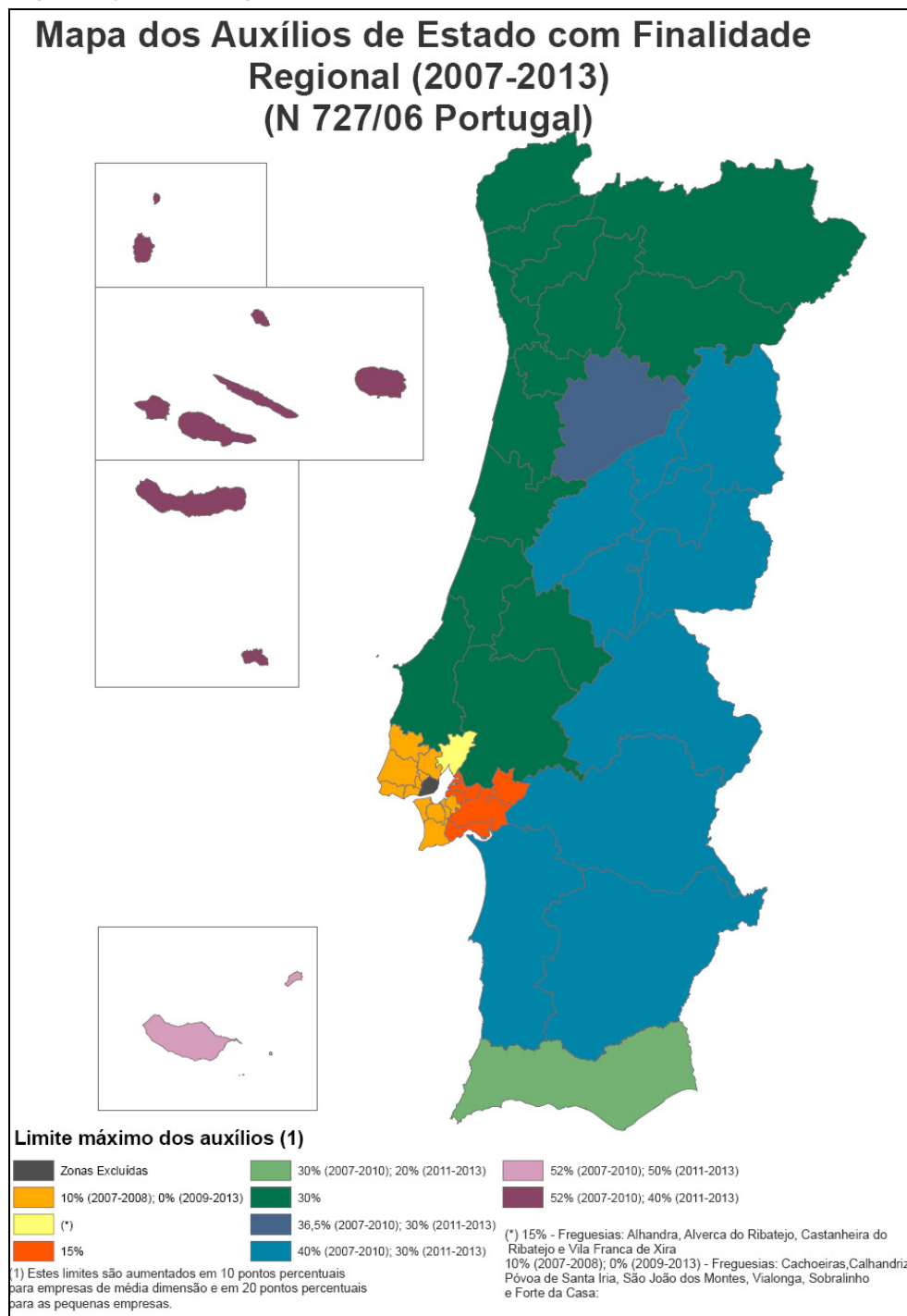
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

Map 2: Regional aid map 2007-13



Source: Portuguese government.



**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.032	0.044	0.026	0.025	0.066	0.060
EfD	3.714	3.826	3.768	2.855	2.996	3.164
Social protection	22.4	23.1	23.7	23.8	23.4	
Cohesion policy	2.700	2.409	1.927	1.630	1.506	1.543

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
3060	17133	280	448	490	99	21511

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
19099.033	2.021	263.1	65.5	0.5505	98.7

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
<ul style="list-style-type: none"> <li>Financial incentive scheme (State Aid XR60/2008) SI Innovacao - 2008-13, annual budget</li> </ul>	€300mn	0.1771

Note: The % of GDP data are calculated for all years for which GDP data is available and then averaged.

Source: National expert's report and State Aid XR60/2008

## PORTUGAL

### Overview

A commitment to cohesion is enshrined in the 1976 Constitution, but it is EU Cohesion policy that has provided the framework for national and regional economic development policies since EU accession in 1986. The relatively small size of Portugal and low prosperity in relation to the EU average has resulted in policymaker attention being focused on improving national competitiveness in a European context, with a particular emphasis on the capital city of Lisbon as the main engine of national economic development. EU Cohesion policy represents a high proportion of public investment in Portugal and funds a wide array of national and sub-national policies. From a domestic policy perspective, a national spatial planning strategy approved by Parliament in 2007 is the closest there is to a national regional policy.

### Objectives

There is a constitutional commitment “to promote the economic and social cohesion of the whole country by guiding development in the direction of balanced growth in every sector and region.” Explicit references is made to disparities between towns and between the coast and interior along with the locational disadvantages faced by the two autonomous island regions (Azores and Madeira). In the government’s 2009-2013 electoral programme, the economic, social and territorial objectives of regional policy are emphasised, interpreted as:<sup>1</sup> a place-based and integrated sustainable development approach that pursues equal opportunities, the development of new centres within a polycentric urban system, and economic and infrastructure modernisation to create wealth in all territories. The programme recognises that the NSRF is the key instrument, which has witnessed a significant shift towards competitiveness objectives in this period, although equity (especially social cohesion) remains a core strategic priority. The objectives of the national spatial planning policy include strengthening territorial competitiveness and international integration, promoting polycentric development, and ensuring territorial equity and social cohesion in the provision of infrastructure and general services.<sup>2</sup>

### Regional problem

Traditional characterisations of the regional problem have emphasised the duality between a dynamic urban coast, on the one hand, and a declining rural interior with high outmigration on the other. More recent analyses as part of the NSRF reveal a more nuanced picture. First, new dynamics of activity have emerged along the two axes of relations with Spain. Second, the traditional dimension of economic weakness associated with an interior geographical location has been superseded by a peripheral dimension. Third, the two development poles of Grande Lisboa and Grande Porto continue to be the main drivers of overall national growth. Fourth, infrastructure asymmetries have declined across the country, but depopulation trends and sustainable growth and job creation challenges remain in many areas. Finally, the territorial dimension of competitiveness trends reveals a complex picture with significant spatial variations: the main winners are located in the capital city or certain polarised areas (Central Alentejo); diffuse development pole patterns

with few emerging competitive areas (e.g. Entre Douro e Vouga and Baixo Vouga); and limited progress or decline in a vast number of areas in varied contexts, such as Grande Porto (which is advancing less rapidly in recent times) or a group of NUTS III areas where there is a clear backward trend (Cávado, Tâmega, Baixo Mondego, Pinhal Interior Sul, Beira Interior Sul, Cova da Beira, Lezíria do Tejo, Alto Alentejo, Baixo Alentejo, Algarve, Madeira and Açores).

### **Policy response**

The NSRF has a budget of €21.5 billion for the 2007-2013 period and is delivered through national programmes for competitiveness (ERDF), human potential (ESF) and territorial development (ERDF and Cohesion Fund), along with regional programmes for each of the five mainland regions and the two autonomous island regions. A key thematic shift is the increased emphasis on human capital and competitiveness spending, which have witnessed relative funding share increases of 10 percent respectively.

Under the so-called competitiveness agenda, the business aid schemes represent a prominent and long-standing tool for pursuing regional development goals in Portugal characterised in the new period by a shift away from generic support towards the incentivisation of internationalisation, innovation and skills upgrading. The assisted areas map covers 77 percent of the total population, with all regions except Lisbon eligible for regional aid support. R&D and innovation has also received a significant boost in this period, underpinned by a national Technology Plan. In the human capital field, a significant development is the 'New Opportunities' initiative to support secondary education and adult training and lifelong-learning. Among the key interventions under the thematic agenda of territorial development are Trans-European networks, the creation of the main logistical centres of the country, large water supply and sewage systems, national parks, and core economic and social facilities to strengthen and balance the urban network.

Other EU co-funded sectoral initiatives with a stronger place-based orientation at the local level include the PROVERE Program (Programme for the Economic Enhancement of Endogenous Resources) and the Urban Environmental Requalification Programme (Polis XXI). The former supports innovative integrated actions in low population density areas that exploit endogenous territorial resources, while the latter supports the development of urban partnerships, city networks on competitiveness themes, and innovative actions.

Beyond the NSRF, the approval of the National Spatial Policy Programme in September 2007, following a lengthy consultation and preparatory phase, marked a renewed emphasis on spatial planning in Portugal. Adopting a 2025 time-frame, the programme includes guidelines and principles for sustainable territorial development and cohesion and for the coordination of sectoral policies with territorial impact. Regional spatial plans have been drawn up by the five deconcentrated Regional Coordination and Development Commissions (CCDRs) in the mainland and by the two autonomous governments, which in turn provide a steer to local development plans developed by the municipalities. The CCDRs also developed economic development strategies to inform their ERDF regional programmes.

A final broader element of regional policy is the intergovernmental fiscal relations model. The autonomous regions receive a state transfer which is calculated on the basis of the difference between state and regional per capita public investment and adjusted by a cost disparities coefficient, and can receive a further 35 percent of that transfer through a domestic Cohesion Fund. Financial relations with local authorities are governed by the Local Finances Act.<sup>3</sup> This provides the legal basis for the Financial Balance Fund, which is split equally between a Municipal Base Fund and a more redistributive Municipal Cohesion Fund distributed according to an 'equal opportunities' index.

### **Policy features**

The overarching framework for promoting cohesion is the NSRF, which has five strategic objectives: to develop the skills of Portuguese people; to promote sustainable growth; to guarantee social cohesion; to ensure the development of the territory and the cities; and to improve the efficiency of governance. The key shift in the current period is a stronger emphasis on growing the economy and stimulating national competitiveness.

The institutional framework has been historically characterised by a centralised and sectoralised public administration, strong local government and weak planning regions. The Ministry of Environment and Spatial Planning ('and Regional Development' till 2010) is responsible for regional policy. In the mainland, 5 Regional Coordination and Development Commissions (CCDRs) were created in the late 1970s as decentralized bodies charged with coordinating policy implementation at the regional level, while the island regions of Azores and Madeira have autonomous policymaking capacities backed up by regionally-elected parliaments and governments. The share of Cohesion policy funding managed at regional and local levels through regional programmes has increased in this period. In addition, an increased role has been assigned to the CCDRs in the management of business aid schemes for small and micro firms, and, below this level, decentralised integrated local actions are being promoted through global grants to groupings of municipalities organised at the NUTS III level.

The NSRF and Spatial Planning Programme are the key tools for pursuing coordination across policy areas and levels. An important change for 2007-13 was the reduction in the number of national sectoral OPs to just three thematic OPs involving several economic sectors and Ministries and managed in an integrated way by an autonomous managing authority. The objective is to ensure that different ministries work towards the overarching objectives of the NSRF rather than in a narrow sectoral approach, supported by a new global layer of governance to oversee the implementation of all programmes. Vertical and horizontal coordination of sectoral policies with territorial impact and of spatial and urban planning policy is also pursued through the Spatial Planning Programme and the various related plans and committees at different levels.

### **Importance of Cohesion policy**

The importance of Cohesion policy in national regional policy is clear from the previous review as the two are essentially synonymous and cannot be separated. EU Lisbon objectives have been fully embraced in this period at the initiative of national

policymakers; six national priorities of the National Reform Programme have been agreed as earmarking themes in the NSRF. This is evident in the shift in strategic focus from infrastructure and basic public services support towards competitiveness objectives, aptly characterised by the OECD as a 'turning point' in the history of Portuguese regional policy.<sup>4</sup>

Cohesion policy funding allocations in 2007-13 remain broadly similar to the previous period - although the Lisbon region has faced a major cut as a result of its full entry into the Competitiveness Objective - and continue to account for a high share of domestic expenditure. The importance of Cohesion policy as a source of funding is all the more significant in the context of the public finances squeeze faced during recent years even before the latest economic crisis.

The governance dimension is arguably the area where Cohesion policy has been most important. A negative referendum result in 1998 prevented the devolution of power to the deconcentrated Regional Coordination Commissions which has hindered the development of regionally-grounded economic development strategies. As a result of this institutional void, the key driving force behind regional strategy building has been and continues to be EU Cohesion programming requirements, although the setting up of strategic advisory committees at regional level in the current period should make an important contribution in the future. The NSRF exercise has also been instrumental in supporting inter-ministerial coordination through the setting up of working groups, strategic coordination committees and joint management approaches.

A final key influence of EU Cohesion policy is the strengthening of monitoring, reporting and evaluation of public policies. The performance culture is still underdeveloped by some other European standards, especially at the sub-national level, but strong efforts are being made by key national policy stakeholders to use these tools to promote a more objective and strategically-driven approach. The introduction of annual strategic reporting, the publication of public progress bulletins, the setting up of regional observatories and thematic monitoring centres, and the drafting of a wide-ranging evaluation plan for the 2007-13 period are all symptomatic of this drive.

### **Impact of the crisis**

While regional statistics on the impact of the crisis are not yet available, it is the regions that are dominated by traditional sectors (textile, electronic and automobile assembly) and SMEs that are likely to be worst affected (the North and Centre regions). The tourism sector (Algarve) has also suffered a sharp decline in traditional external markets (from the UK in particular). While the Lisbon area appears to be fairing better, this is partly because the majority of public support to address the crisis was directed at the banking and financial sectors, largely located in the capital city.

The main regional policy-related domestic response to the economic crisis is a Programme for Investment and Employment of €2.23bn (which is partly co-funded by EU Cohesion policy) and focused particularly on schools infrastructure, urban regeneration, energy efficiency and renewable energies, and ICTs. The main priority under Cohesion policy is to speed up implementation although several initiatives were already being implemented

before the crisis hit, e.g. advance payments to firms and efforts to shorten project approval times. Certain eligibility rules have also been relaxed under the various domestic regulations governing the operational programmes.

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**ENDNOTES**

<sup>1</sup> Programa do XVIII Governo Constitucional: 2009-2013, p91

<sup>2</sup> DGOTDU (2007), *Programa nacional da política de ordenamento do território*, DGOTDU.

<sup>3</sup> Law No.2/2007 of de 15 de Janeiro 2007 and Law No. 22-A/2007 of 29 June 2007.

<sup>4</sup> OECD (2008), *OECD Territorial Reviews - Portugal*, OECD, Paris.



## 22. ROMANIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	93.7	38.9	10504.8	238391	115869	42.4

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	23.8	24.7	23.3	23.7	23.0	27.0	27.5	
GDP(PPS) per head (NUTS3)	24.4	28.7	29.0	30.0	29.3	29.2	33.7	34.4	
Unemployment rates (NUTS2)	13.0	11.3	13.9	14.6	13.9	17.6	17.3	22.7	27.7
Unemployment rates (NUTS3)	34.3	36.8	35.2	38.4	37.1	41.5	42.5	47.3	52.4
Employment rates (NUTS2)	4.2	4.6	5.6	3.2	3.5	4.9	4.5	3.6	4.6
Employment rates (NUTS3)	8.4	9.0	10.0	9.8	12.0	13.6	15.1	14.6	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

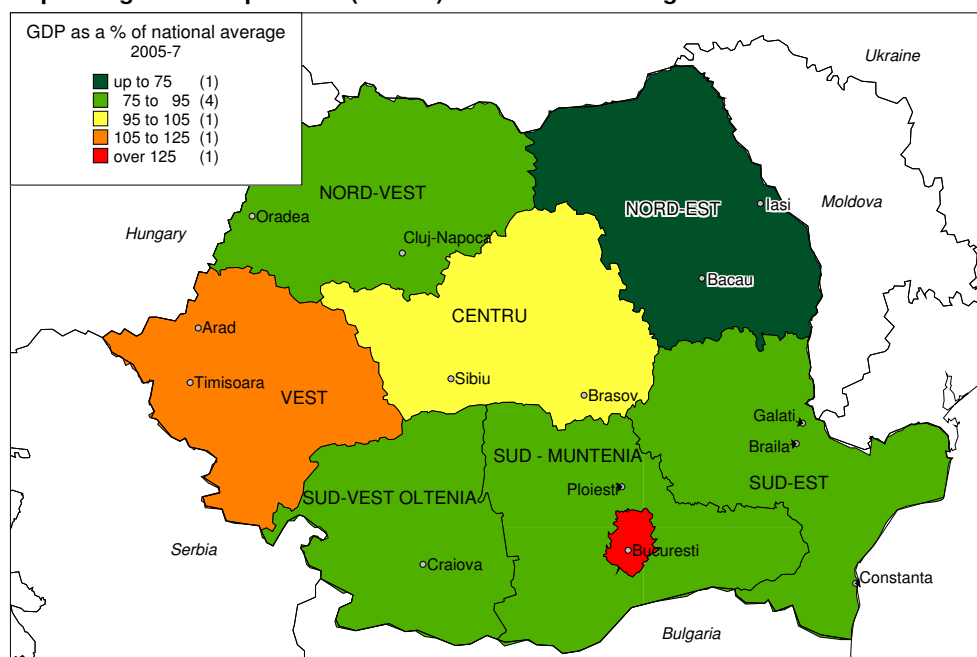
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Romania	4700	5000	5500	6000	6500	7400	7900	9100	10400
Min	3400	3400	4000	4400	4700	5100	5200	5800	6600
Max	8700	10800	11200	12100	13000	14800	17300	19800	23000
<b>GDP(PPS) per head NUTS 3</b>									
Romania	4700	5000	5500	6000	6500	7400	7900	9100	10400
Min	2500	2400	2900	3000	3500	3700	3600	4200	4500
Max	9100	11300	11700	12600	13500	15200	17900	20200	23700
<b>Employment rates NUTS 2</b>									
Romania	58.8	58.5	57.9	52.1	50.8	50.3	51.0	51.0	51.3
Min	52.8	51.1	48.0	47.8	47.3	46.0	na	na	47.2
Max	65.9	65.9	66.4	57.5	55.2	56.0	na	na	55.4
<b>Unemployment rates NUTS 2</b>									
Romania	6.9	7.2	6.6	8.4	7.0	8.1	7.2	7.3	6.4
Min	4.6	4.7	4.6	5.5	4.1	4.0	na	na	3.5
Max	9.3	9.9	8.6	10.6	8.9	13.4	na	na	15.8
<b>Unemployment rates NUTS 3</b>									
Romania	6.9	7.2	6.6	8.4	7.0	8.1	7.2	7.3	6.4
Min	2.9	2.6	2.9	4.0	3.7	4.0	na	na	na
Max	14.8	17.3	15.5	19.9	13.5	18.7	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
Romania	2465.4	2858.8	3359.2	3356.2	3198.2	4023.1	4067.2	4491.1	5199.5
Min	na	2279.1	2772.8	2701.3	2434.0	3244.2	3219.6	3577.2	4064.4
Max	na	9712.0	10211.9	10824.5	10766.6	11414.7	12016.3	12497.7	13064.7

Source: Eurostat



**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, maximum aid rates for large firms range from 40 percent to 50 percent.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.142	0.133	0.050	0.054	0.012	0.027
<b>EfD</b>	3.450	3.298	3.271	5.150	5.557	5.621
<b>Social protection</b>	12.7	12.4	13.0	12.2	12.6	
<b>Cohesion policy</b>	0.000	0.000	0.000	0.000	0.338	0.464

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
6552	12661				455	19668

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
17273.343	4.186	112.9	83.1	0.6753	60.1

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		<b>% of GDP</b>
• Regional aid - budget €575mn for 2008-12 - annual budget	€115mn	0.0908

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report.

## ROMANIA

### Overview

Romania's regional policy is closely aligned to EU Cohesion policy at all levels. EU levels of development are used as benchmarks in the definition of domestic policy objectives, and strategic guidelines and regulations are carefully observed. Despite the existence of a few scattered domestic aid measures, it is widely accepted that the most important initiatives come from the EU level. In fact, the operation of a parallel domestic policy is felt to be detrimental to overall policy coherence.

### Objectives

The 2004 Regional Development Law (no. 315/2004) sets out the main policy objectives.<sup>1</sup> It aims to ensure "economic growth and balanced and sustainable social development of geographical areas organised as development regions, the improvement of Romania's international competitiveness and the reduction of economic and social disparities between Romania and other EU Member States" (Art.2-1). The main objectives are to reduce regional disparities, to ensure sectoral coordination at the regional level, and to stimulate interregional cooperation (Art.3). The law is based on the Green Paper for Regional Policy developed in the context of a PHARE-project to facilitate harmonisation with EU requirements. The close alignment with the EU context is also underlined in the 2003 Constitution (the revised version of the 1991 Constitution) which states that regional development policy needs to be implemented in accordance with EU objectives (Art.135 g).

In line with this, the main objective of the National Development Plan (NDP) is the reduction of the development gap between Romania and the EU.<sup>2</sup> It stipulates six development priorities: (i) the increase of economic competitiveness and the development of a knowledge economy; (ii) the development and modernisation of transport infrastructure; (iii) the preservation and enhancement of the environment; (iv) the development of human resources, the promotion of employment and social inclusion, and the improvement of administrative capacity; (v) the development of the rural economy and increase of the productivity of the agriculture sector; and (vi) the reduction of interregional disparities.

### Regional problem

The transition period from communism in the 1990s saw a widening of existing regional disparities. There was, however, a temporary slow-down or even reversal of related trends (e.g. regarding unemployment rates) during the period of economic growth in 2000-2008. There is an important divide between the capital region around Bucharest-Ilfov (GDP per capita of 218.2 percent of the national average in 2008) and the rest of the country. Here, disparities are more moderate, but there is also a marked difference between the West of the country (GDP per capita of 114 percent) and the North-East (GDP per capita of 63.3 percent). Disparities are smaller in terms of average net monthly income, which in 2008 ranged from 86.5 percent of national average in the North East, compared to 134.8 percent in Bucharest-Ilfov. Disparities are even higher at NUTS3 level.<sup>3</sup> Moreover, FDI is extremely

regionally concentrated (around 64 percent in Bucharest-Ilfov in 2007 and 2008 versus some 2 percent in the North East).<sup>4</sup>

There are considerable disparities between urban and rural areas. Rural areas account for 45 percent of the population, one of the highest levels in Europe. They are faced with problems of population decline and ageing, low levels of education, low fertility rates, limited employment opportunities, and dependence on subsistence farming. Disparities are also high in terms of infrastructure provision and living standards. In addition, there are a number of areas displaying particular characteristics, such as mountainous areas, the Danube delta, mining areas and defence restructuring zones. The hinterland of some of the major cities is also considered to be disadvantaged.

### **Policy response**

There is virtually no domestic policy in place which is not linked to EU Cohesion policy. Up to 2010, a number of domestic measures were taken to address regional disparities. The focus was on disadvantaged areas, mostly mining areas, but their status has now expired. Support was also provided to industrial estates (from 2001) and science and technology parks (from 2002). In addition, specific laws are in place targeted at areas with particular characteristics, but these are not a priority of regional development policies. A law targeted at mountain areas was adopted in 2004 (no. 347/2004) and modified in 2008. The main objective is “the sustainable, efficient use of mountain resources, landscape and biodiversity preservation, and the development of activities which are specific to these areas” (Art.3-1).<sup>5</sup> So far, no concrete measures have been introduced, while the impact of related initiatives has remained limited, also due to an unfavourable political climate with frequent changes in leadership. Overall, although there was scope to develop non-EU driven policy initiatives under the Regional Development Law and the NDP, these have not been taken further.

In terms of broader regional policies, there are no national ‘all-region’ development policies that are not driven by EU Cohesion policy. It is, however, worth noting that a regional aid scheme was put in place in 2008 which is financed purely by domestic sources. It allocates support to large investment projects based on differentiated aid rates (i.e. 50 percent in development regions and 40 percent in Bucharest-Ilfov).<sup>6</sup> The scheme will operate until 2012 with a budget of €575 million.

There are also no independent sectoral policies. In the field of spatial planning, a Strategic Concept of Territorial Development up to 2030 is to be completed and launched by the end of 2010.<sup>7</sup> It is based on Romania’s contribution to the Green Paper on Territorial Cohesion and addresses the country’s integration in European spatial structures through the promotion of regional identity, competitiveness, territorial cohesion, and sustainable territorial development. Specific objectives concentrate on connecting the national territory to the European network of development poles and corridors; structuring and developing the network of urban centres; supporting urban-rural functional solidarity; developing and consolidating interregional networks; and protecting, developing and making use of the natural and cultural heritage. The expected outcome is improved

coherence between cohesion and competitiveness goals at the territorial level, and support with the territorial allocation of European Funds.

There is no fiscal equalisation mechanism in place with explicit cohesion objectives. Nevertheless, the most important income source of local budgets (counties, municipalities) consists in allocations from the State budget based on the redistribution of local taxes. This means that local authorities depend on centralised resources rather than managing their budgets autonomously. There is a clear funding bias towards less developed areas, but the focus is mainly on ensuring acceptable public service provision at the local level.

### **Policy features**

The main frameworks for regional policy are the NSRF and the NDP. However, whereas the NSRF is organised around Structural Funds and Cohesion Fund resources, the NDP also includes information on other funding sources, such as national and local investment programmes, external funding and aid (e.g. the World Bank, USAID). Other reference documents are the 2030 Strategic Concept of Territorial Development and the 2009-12 Convergence Programme of the Romanian Government.

The Ministry of Administration and Interior is in charge of the overall policy regarding industrial and technological parks (the main responsibility is the issuance of accreditation/permits for all parks), whereas most of the support measures under the Structural Funds are managed by the Ministry of Regional Development. There is no specific national coordination mechanism for targeted areas with particular characteristics. The only coordination is performed by the Ministry of Public Finance in respect of the objectives under the NDP and NSRF. The Ministry of Public Finance is also in charge of managing the regional aid scheme.

### **Importance of Cohesion policy**

There is a high degree of 'Lisbonisation' of Romanian regional policy, to the extent that there are virtually no domestic initiatives which are independent of EU Cohesion policy. Most domestic policy objectives and frameworks are founded on or derived from EU-related guidance and requirements in order to benefit from the available EU funding opportunities. The main documents are the 2007-13 NSRF and OPs which were developed based on the 2007-13 National Development Plan. Moreover, funding allocations are established in line with co-funding requirements.

EU funding is dominant in all policy fields and the maximum EU co-financing rate is applied to almost all intervention areas. Since all key domestic arrangements and institutional structures were designed in accordance with the EU regulations, funding decisions are made together, as parts of the same decision-making process. Coordination mechanisms are in place to ensure the allocation of national contributions. In 2007-13, €19.7 billion of Structural Funds have been allocated to Romania. Regarding the distribution of funding across convergence programmes, the main priorities are transport and environmental infrastructure (both 23 percent); regional development (19 percent); human resources development (18 percent); and economic competitiveness (13 percent). The NSRF priority

'Promotion of Balanced Territorial Development' is implemented via a regional Operational Programme (ROP) to alleviate the possible side effects of sectoral priorities. It focuses support on urban development and growth poles (30 percent); the improvement of transport (20 percent) and social infrastructure (15 percent); support to the business environment (e.g. industrial estates and technology parks) (17 percent); and tourism development (15 percent). Funding is allocated in inverse proportion to regional GDP per capita, adjusted by population density, thus giving priority to less developed regions. The other OPs are purely sectoral, except for the Environment OP - one of the largest programmes - which has a clear spatial orientation and, to a certain extent, the Human Resources Development OP.

The Operational Programmes are managed by the concerned ministries, with the ROP under the authority of the Ministry of Regional Development and Tourism. At the level of the eight development regions (NUTS 2), development agencies act as Intermediate Bodies and coordination committees are in place, acting as consultative bodies. Some of the sectoral OPs also work with dedicated Intermediate Bodies at this level. Overall coordination is ensured by the Ministry of Public Finance which heads the National Coordination Committee composed of involved ministers.

Cohesion policy has had a considerable impact on all stages of domestic policy-making from the beginning of the pre-accession period. In this context, capacity building processes were significant in that they prepared the country for the administration of the Structural Funds after accession (e.g. regarding monitoring and evaluation requirements). Institutional change was therefore accompanied by operational change, and it is expected that some of the mechanisms will be internalised in domestic structures.

### **Impact of the crisis**

The effects of the economic and financial crisis at the regional level are uneven, depending on economic and social structures and the degree of regional specialisation. This added to the existing regional problems, with considerable disparities persisting despite the preceding period of robust economic growth. There is, therefore, growing concern that disparities may deepen further. In terms of GDP per capita, the difference between Bucharest-Ilfov and the North East rose to 1:3.55, compared to 1:3.45 in 2008 and 1:2.76 in 2004. According to the National Commission for Prognosis, further increases in both GDP per capita and average income disparities are expected over the next few years. Moreover, the crisis seems to have induced a shift from a focus on convergence and cohesion towards competitiveness. Disadvantaged zones are thus expected to face sluggish recovery in the post-crisis period.

In addition, the crisis has seriously hit domestic funding sources needed for the implementation of Cohesion policy. The Convergence Programme of the Romanian Government has been amended, entailing a revision of objectives and domestic funding contributions to Operational Programmes. As a result, there are concerns about absorption, making it more difficult for the less developed regions to supply project co-financing. So far, the regional aid scheme has remained unchanged by these developments. In May 2009, an IMF Stand-by Arrangement was approved, amounting to €12.9 billion over two years to

alleviate the effects of sharp drop in capital inflows. The total international support package will amount to €19.9 billion, including funding from the EU, the World Bank, the EBRD, and the EIB.<sup>8</sup> Related, Romania is one of five countries receiving a share of additional advances of €775 million (4 percent from ESF and 2 percent from the Cohesion Fund) under the simplification measures decided by the European Commission in June 2010.

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#### ENDNOTES

<sup>1</sup> *Lege no. 315 din 28 iunie 2004 privind dezvoltarea regionala în România.*

<sup>2</sup> *Guvernul României (2005) Planul Național de Dezvoltare 2007-2013.*

<sup>3</sup> *Comisia Națională de Prognoză (2009) Proiecția principalilor indicatori economico - sociali în PROFIL TERITORIAL până în 2012, Prognoza de Primăvară 2009.*

<sup>4</sup> Source: National Institute of Statistics

<sup>5</sup> *Legea muntelui no. 347/2004.*

<sup>6</sup> *European Commission (2008) State aid N 103/2008 - Romania, Regional development by direct investment.*

<sup>7</sup> *Ministerul Dezvoltării Lucrărilor Publice și Locuințelor (2008) Conceptul Strategic de Dezvoltare Teritoriala România 2030, O Românie Competitivă, Armonioasă și Prosperă, Document supus Consultării Publice.*

<sup>8</sup> *International Monetary Fund (2009) 'IMF Executive Board Approves €12.9 Billion Stand-By Arrangement for Romania', Press Release, 09/148, 04.05.2009.*

## 23. SLOVAKIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
5.397	110.1	69.3	296.6	49034	63332	67.8

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	26.0	26.5	27.3	28.3	27.8	28.3	31.7	30.1	
GDP(PPS) per head (NUTS3)	27.2	27.7	27.4	28.1	28.7	29.2	33.6	34.5	
Unemployment rates (NUTS2)	27.4	27.0	24.3	22.9	26.7	30.8	36.7	37.8	38.0
Unemployment rates (NUTS3)	31.0	28.9	27.8	30.7	35.5	37.1	42.3	43.4	46.1
Employment rates (NUTS2)	8.1	9.1	8.3	7.3	7.6	9.0	9.8	8.6	8.3
Employment rates (NUTS3)	9.1	9.7	9.2	9.2	9.3	10.1	10.9	9.6	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS2</b>									
Slovakia	9000	9500	10400	11100	11500	12300	13500	15000	16900
Min	6800	7200	7900	8400	8600	9100	9700	10400	11500
Max	19200	20700	22800	25000	25800	27900	32900	34900	39900
<b>GDP(PPS) per head NUTS3</b>									
Slovakia	9000	9500	10400	11100	11500	12300	13500	15000	16900
Min	5500	5800	6300	6900	7000	7400	8000	8200	9200
Max	19200	20700	22800	25000	25800	27900	32900	34900	39900
<b>Employment rates NUTS2</b>									
Slovakia	50.0	48.8	48.8	48.8	49.7	49.2	49.8	51.2	52.3
Min	46.7	45.3	45.3	46.1	46.6	44.9	44.7	46.6	48.2
Max	60.7	60.5	59.2	58.1	59.3	58.9	60.5	60.6	61.7
<b>Unemployment rates NUTS2</b>									
Slovakia	16.4	18.8	19.3	18.7	17.5	18.2	16.3	13.4	11.1
Min	7.4	7.3	8.3	8.7	7.1	8.3	5.3	4.6	4.3
Max	21.3	24.0	23.9	22.2	21.8	24.2	23.1	19.1	15.3
<b>Unemployment rates NUTS3</b>									
Slovakia	16.4	18.8	19.3	18.7	17.5	18.2	16.3	13.4	11.1
Min	7.4	7.3	8.3	8.7	7.1	8.3	5.3	4.6	4.3
Max	23.3	25.6	24.9	25.4	23.9	26.7	24.7	21.1	20.4
<b>Disposable household income (PPS) per head NUTS2</b>									
Slovakia	5215.2	5449.3	5969.9	6361.7	6102.4	6461.7	7259.3	7832.1	8905.0
Min	4811.1	4962.0	5369.0	5598.3	5373.1	5574.5	6201.9	6718.1	7389.6
Max	7591.1	8004.6	8833.2	9496.8	9126.1	9982.7	11867.3	12195.1	13749.3

Source: Eurostat



**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, maximum aid rates for large firms range from 40 percent to 50 percent.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.266	0.280	0.273	0.276	0.193	0.267
EfD	2.234	2.223	2.290	2.453	2.262	2.865
Social protection	17.6	16.6	15.9	15.7	15.4	
Cohesion policy	0.000	0.342	0.409	0.602	1.157	1.250

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
3899	7013			449	227	11588

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
10238.664	4.416	271.3	85.4	0.6254	90.7

Source: Own calculations from Com decisions on commitment appropriations; Info regio; Eurostat.

**Figure 7: Key areas of national spend**

Narrow and broad regional policies:		% of GDP
• State aid for regional development (including EU contributions) - 2007	SK4,369.80mn (€145.05mn)	0.2642

Source: National expert's report.

## **SLOVAKIA**

### **Overview**

To date, a distinct, well-integrated, coordinated national regional policy has not emerged in the Slovak Republic. Interventions aimed at addressing regional disparities tend to be fragmented. In the lead up to EU accession and since 2004, regional policy legislation and strategies have emphasised the particular role of Cohesion policy which has substituted domestic policy interventions to a considerable extent. Nevertheless, a number of domestic sectoral policy instruments are territorially differentiated.

### **Objectives**

The Act on Support for Regional Development (No. 503/2001 Coll) set out the principles of regional policy in the Slovak Republic. The Act, and its subsequent amendments, emphasise the importance of EU Cohesion policy in dealing with regional and territorial inequalities. The objectives of economic, social and territorial cohesion are more explicitly addressed in the Slovak Government's (2006-10) declaration, which states that the government aims to balance economic growth with social cohesion and quality of life.<sup>1</sup> In relation to regional policy, the aim is to halt the continuing trend of increased regional disparities through the use of central development incentives and support for the policies of self-governing regions. Supporting the overall goals of the Act and the political goals of the government are a number of strategic documents that mainly relate to Cohesion policy (e.g. the National Development Plan). In the second half of 2010, a national regional development strategy was finalised and adopted.

### **Regional problem**

Despite dynamic national economic growth between 1995 and 2008, disparities in regional GDP per head levels have not decreased. A strong west-east development gradient runs across the country. In terms of GDP, the most pronounced disparities are between the Bratislava region, with the highest GDP per capita, and the Prešov region with the lowest. The growth rate of the Prešov region has consistently remained below national growth rates. Recent economic growth has been largely driven by developments in the service sector and foreign direct investment, which has been concentrated in the west. Further growth of this highly-specialised region will face the emerging challenges of a shortage of qualified workers in key sectors and a low level of innovation in the economy. In contrast, the eastern and southern parts of the country are characterised by rural areas, significant spatial concentrations of marginalised and socially disadvantaged groups, low productivity, weak investment and restructuring, and deficiencies in basic infrastructure. In addition to west-east development disparities, the particular development needs of rural and mountainous<sup>2</sup> areas are recognised. According to the OECD classification, 86 percent of the territory is made up of rural areas holding about 40 percent of the population. Mountainous areas (i.e. cities and municipalities more than 540 metres above sea level) make up 16 percent of the country's total surface area and 10 percent of the population live in mountainous areas.

### Policy response

Regional economic development policies in Slovakia are dominated by EU Cohesion policy resources. However, domestic policy resources and responses also carry weight. Narrow regional policy interventions are structured according to the Act on State Aid. Within this Act, the aim of regional aid is “to assist the development of the most disadvantaged regions through support for investment and the creation of jobs on a sustainable basis”.<sup>3</sup> Aid schemes involve subsidies, contributions, grants, and interest-related credits. Indirect aid is also offered, e.g. in the form of a state guarantee or bank guarantee, tax reductions, sale of state or municipal property at below market value, provision of free or subsidised advisory services, postponement of tax payments, or payment of tax in instalments.<sup>4</sup> According to the state aid map, maximum aid intensities (50 percent) are available in Eastern Slovakia and Central Slovakia. In Western Slovakia the ceiling is 40 percent and in Bratislava Region 10 percent. Regional aid for large enterprises divides Slovakia into three zones, (1) districts with unemployment rates over 15 percent, (2) from 10-15 percent, and (3) below 10 percent, with variable rates of award applying in each case. In 2007, the level of state aid offered reached €145.05 million (SK 4,369.80 million), including EU contributions.<sup>5</sup>

In terms of broader regional policies, the majority of activities in the area of regional development are closely linked to the implementation of EU Cohesion policy. In the delivery of Cohesion policy, the government has a responsibility for political coordination. Due to changes in the state administration, operational coordination was transferred from the Ministry of Construction and Regional Development to the Government Office of the Slovak Republic between July and December 2010. From January 2011, this role will be taken over by the Ministry of Transport, Post and Telecommunications. Additionally, the Government council for regional policy and supervision of structural operations is an advisory body of the Government which aims to support the coordination of broader regional policies between ministries. Beyond EU policies, the main responsibilities for regional development are decentralised to local and regional authorities in line with their competences defined in related legislation (Act no. 302/2001 Coll., 369/1990 Coll., and 416/2001 Coll.). At the regional and local level, support for regional development is implemented through a system of programmes (plans). However, self-governing regions are not yet subject to any formal requirements to include economic, social and territorial cohesion in the objectives and priorities of the development programmes they prepare.

A range of sectoral policies can be viewed as having cohesion objectives: transport, employment and innovation. Each of these policy areas involves substantial domestic policy resources. However, EU Cohesion policy is also an important source of funding and informs strategic policy directions and choices. The Slovak Republic’s transport policy document (Resolution no. 445/2005) states that transport is a means of achieving social and regional solidarity. Modernisation and expansion of transport infrastructure are understood in terms of their effect on “the development of the economic activities of the state and the elimination of disparities between regions”. Transport policy receives high levels of funding (see Figure 8). Within this, particular attention is given to transport corridors between regions and adequate networks within each region. However, the policy does not define specific target regions or types of transport within regions for the promotion of economic and territorial cohesion.

**Figure 8: Public administration budget 2009-12: Transport (in €mn)**

	2009	2010 (planned)	2011 (planned)	2012 (planned)
<b>State budget and EU</b>	<b>1 377 590</b>	<b>1 424 996</b>	<b>1 531 213</b>	<b>1 327 428</b>
EU funding*	783 317	691 497	680 485	408 511
State budgetary funding	594 273	733 499	850 728	918 917

\* **Note:** EU funding only includes financial allocations under the Transport OP and does not include allocations for roads of 2<sup>nd</sup>, 3<sup>rd</sup> and 4<sup>th</sup> class under the Regional Operational Programme.

**Source:** Based on Ministry of Finance (2010) Proposal for the state budget for 2010-12.

Another policy with particular regional development relevance is employment policy (see Figure 9). For instance, financial contributions to selected active labour market measures are regionally differentiated. The maximum contribution in the Bratislava region is lower than in other regions and takes into consideration the unemployment rate in the target district.

**Figure 9: Public administration budget 2009-12: Employment (in €mn)**

	2009	2010 (planned)	2011 (planned)	2012 (planned)
<b>Employment policy</b>	<b>141 363</b>	<b>210 266</b>	<b>206 152</b>	<b>205 199</b>
national programmes	15 616	67 599	72 230	74 682
Investment incentives	16 970	22 799	5 700	1 988
EU funding	108 777	119 868	128 222	128 529

**Source:** Based on Ministry of Finance (2010) Proposal for the state budget for 2010-12.

Current (2008-10) innovation policy also has a strong regional focus. The main policy instrument is centred around support for centres of competence, however no activities have yet been developed. Another area of support focuses on SMEs. As well as financial support for SMEs, a network of advice centres, innovation centres and business incubators are funded. In 2008, support for SMEs through the national agency of small and medium sized enterprises (NADSME) amounted to €70,950 for the development of incubators and €3,228,035 for micro loans to small enterprises. All of this support is national funding.

Fiscal equalisation policy also impacts on regional development resources. The redistribution of tax revenues between municipalities and self-governing regions is regulated by an Act (No. 564/3004 Coll) on the budgetary allocation of income tax revenue to local government. This mechanism was created as part of the process for the reform of public finances and aimed to introduce an element of fiscal decentralisation. Since 2004, the system has incorporated a horizontal equalisation mechanism for redistributing income to the regional governments in less prosperous areas.<sup>6</sup>

### Policy features

The domestic policy framework for promoting cohesion overlaps significantly with EU Cohesion policy interventions. A number of strategies and instruments are in place, but there is no overarching coordination mechanism. The main instrument to support cohesion should be the national strategy for regional development that has just been adopted. The current government has set out a commitment to addressing regional disparities through

the implementation of top-down incentives and support for the policies of self-governing regions. More specifically, the Act on Support for Regional Development (No. 539/2008) sets out the following objectives, which reflect efforts to balance convergence- and development-oriented objectives: eliminating or reducing unfavourable economic, social and spatial development disparities; boosting competitiveness and innovation in the regions; and increasing employment and living standards.<sup>7</sup>

Until recently, the Ministry for Construction and Regional Development was responsible for regional development support. The Ministry was responsible for a network of regional development agencies and Euroregions. However, the Ministry was abolished on 30 June 2010. It is expected that regional development responsibilities will be transferred to the Ministry of Transport, Post and Telecommunications. At the regional and local levels, support for regional development can be addressed through social and economic development plans. However, self-governing regions and municipalities are not formally required to include economic, social and territorial cohesion as objectives in their plans. Currently, among Slovak regions, only Trenčín and Košice regions explicitly include cohesion objectives in development plans.

As previously noted, domestic regional policy currently lacks a distinct strategic and institutional framework. In relation to EU Cohesion policy, the Government Office and the Ministry of Construction and Regional Development have had only limited scope to coordinate the use of Cohesion policy instruments in order to maximise its effects on regions; instead the main focus has been on absorption and ensuring the regularity of expenditure. Moreover, the government council for regional policy and the supervision of structural operations as a “body providing coordination, consultation and proposals to the government” in the areas of regional policy, pre-accession assistance, Structural Funds, the Cohesion Fund and Community initiatives” has, in recent years, played only a marginal role in the coordination process.

### **Importance of Cohesion policy**

The whole system of regional policy in Slovakia, the definition of objectives, the system of instruments and implementation was developed in the context of accession and the implementation of Structural instruments. Currently, EU Cohesion policy funding provides the majority of financing for development activities within national and regional policies. The Slovak budget for 2010 includes a contribution from EU Cohesion policy of €2,897 billion, which is 17.8 percent of the state budget. Related to this, a considerable number of strategic objectives and priorities are strongly influenced by Cohesion policy, and Cohesion policy resources are key to fulfilling domestic regional policy objectives. Meanwhile, no purely domestic policy for addressing regional development disparities has emerged. Instead strong links have developed between Cohesion policy and domestic frameworks, e.g. by gaining co-financed resources for existing domestic policies or the introduction of new areas of intervention funded through Cohesion policy programmes.

In terms of policy governance, Cohesion policy has exerted a strong influence, even in institutions that are not deeply involved in managing EU funds. For instance, regional authorities participate marginally in the management and implementation of Cohesion

policy<sup>8</sup> but their development documents are shaped by this policy. More generally, greater expertise and experience in strategic programme management, consultation and partnership, monitoring and evaluation are being developed as a result of working with EU funds.

However, elements of domestic systems and approaches persist, e.g. the retention of a strong sectoral orientation to policy. In addition, EU Cohesion policy instruments are not integrated into national policies in terms of management and implementation, i.e. interventions for addressing regional problems are financed either from domestic policies or EU Cohesion policy. The separation of domestic and EU policy frameworks has limited the overall impact of EU Cohesion policy on regional disparities.

### **Impact of the crisis**

The crisis has led to a sharp rise in unemployment in Slovakia. Between the start of the crisis and September 2009, the number of registered unemployed increased by almost 150,000. In 2009, the sharpest rises in unemployment were reported in the districts of Senica, Myjava, Považská Bystrica, Komárno, Martin, Brezno, Detva, Krupina, Sabinov, Snina, Stropkov and Svidník. The worst-affected districts are those dominated by industry (primarily in the west) or districts with consistently long-term unemployment (the south and east). In districts already experiencing long-term unemployment, further increases are linked to the return of migrant workers.

In terms of policy responses, efforts have mainly involved sectoral policies. The following measures relating to employment were implemented alongside existing instruments to support the labour market in the period from March 2009 to December 2010: support for the establishment and maintenance of social enterprises; support for companies to retain staff; and incentives for those seeking work. Measures have also been introduced to improve access to financing and support for business start-ups. € 8.1 million was allocated to measures in this area and €266,000 has, so far, been used. The government also increased the registered capital of the Slovak Guarantee and Development Bank by €30 billion and prepared a line of credit from the EIB for €30-40 million to support the development of small and medium enterprises. Some of the measures have been financed from the Structural Funds; however the Slovak authorities have partly utilised instruments provided by the EU recovery package. Progress in selecting (contracting) EU-supported operations was, by the end of 2009, comparable to the EU average.

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### **ENDNOTES**

<sup>1</sup> Declaration of the Government of the Slovak Republic (2006).

<sup>2</sup> Nižňanský, V. (2009) Settlements in mountainous areas of Slovakia, MESA 10. Centre for economic and social analysis.

<sup>3</sup> State aid scheme for the support of regional development, available online from <http://www.mhsr.sk/schema-statnej-pomoci-na-podporu-regionalneho-rozvoja-6394/128079s>.

<sup>4</sup> Annual report on the provision of state aid (<http://www.finance.gov.sk/Default.aspx?CatID=7291>).

<sup>5</sup> Exchange rate 30.126 SK/€.

<sup>6</sup> Explanatory report on Government Regulation No. 668/2004 Coll. on the distribution of income tax revenues to local government.

<sup>7</sup> Act No. 539/2008 Coll. on support for regional development, section 3 Objectives of support for regional development.

<sup>8</sup> Seven self-governing regions eligible under the Convergence objective act as Intermediate Bodies in the Regional Operational Programme and Bratislava region eligible under the Regional Competitiveness and Employment in the Bratislava Region Operational Programme.

## 24. SLOVENIA

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2.018	100.2	36.1	198.8	20273	34894	89.1

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	na	na	na	na	na	na	na	na	
GDP(PPS) per head (NUTS3)	19.6	19.5	20.2	20.3	22.2	21.9	21.8	22.4	
Unemployment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Unemployment rates (NUTS3)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS2)	na	na	na	na	na	na	na	na	na
Employment rates (NUTS3)	na	na	na	na	na	na	na	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

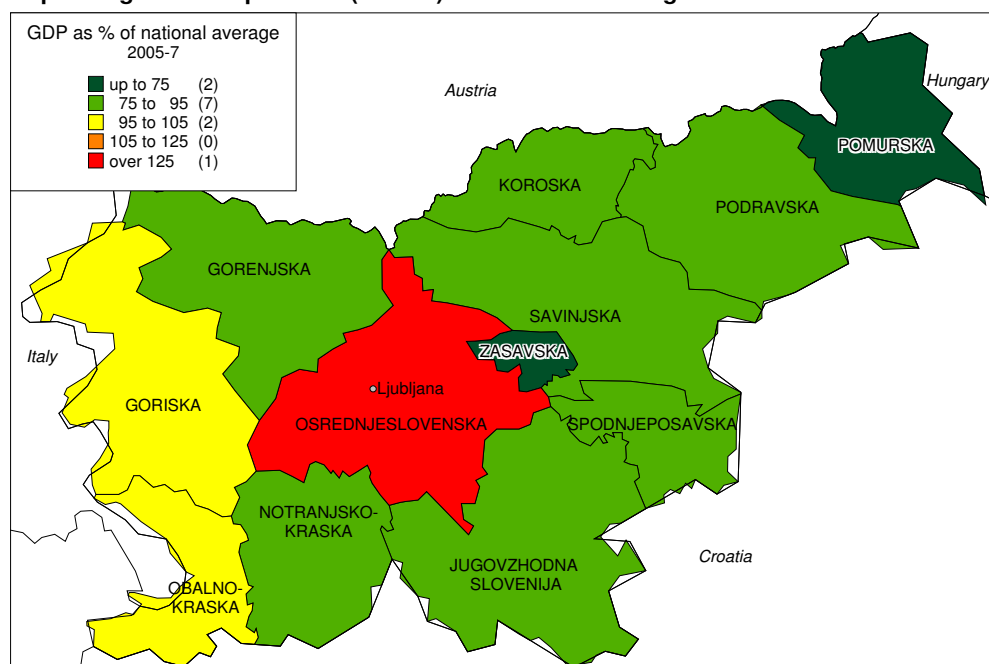
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Slovenia	14400	15200	15800	16800	17300	18700	19700	20700	22100
Min	12100	12800	13200	14100	14200	15500	16300	17100	18200
Max	17100	18000	18800	20100	20900	22500	23600	25000	26600
<b>GDP(PPS) per head NUTS 3</b>									
Slovenia	14400	15200	15800	16800	17300	18700	19700	20700	22100
Min	10100	10600	11000	11600	11800	12700	13100	13600	14400
Max	19900	21000	22000	23600	24900	26800	28200	29900	31700
<b>Employment rates NUTS 2</b>									
Slovenia	53.2	53.8	54.4	53.8	52.8	55.2	55.4	55.8	56.8
Min	na	na	na	na	na	na	54.3	54.7	56.2
Max	na	na	na	na	na	na	56.7	57.0	57.5
<b>Unemployment rates NUTS 2</b>									
Slovenia	7.4	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.8
Min	na	na	na	na	na	na	5.2	4.6	3.9
Max	na	na	na	na	na	na	7.6	7.1	5.6
<b>Unemployment rates NUTS 3</b>									
Slovenia	7.4	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.8
Min	na	na	na	na	na	na	4.6	4.1	3.2
Max	na	na	na	na	na	na	10.4	9.6	7.9
<b>Disposable household income (PPS) per head NUTS 2</b>									
Slovenia	na	8951.5	9400.4	10002.0	9984.6	10602.3	11215.2	11701.0	12289.1
Min	na	8311.3	8714.1	9305.6	9320.4	9910.2	10530.4	11018.3	11621.1
Max	na	9712.0	10211.9	10824.5	10766.6	11414.7	12016.3	12497.7	13064.7

Source: Eurostat



**Map 1: Regional GDP per head (2005-7) % of national average**


Source: Own elaboration from Eurostat data

**Please note:** There is no regional aid map available from national sources. However, a maximum aid rate of 30 percent applies to large firms throughout the country.

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.045	0.033	0.143	0.148	0.112	0.218
EfD	2.676	2.530	3.030	3.084	3.232	3.920
Social protection	23.3	22.8	22.5	22.1	20.8	
Cohesion policy	0.000	0.090	0.186	0.293	0.460	0.632

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
1412	2689				104	4205

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. %2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
3729.381	2.057	267.0	85.7	0.2331	61.3

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		<b>% of GDP</b>
Programme Promoting the Development in the Posočje Region 2007-2013 - annual allocation	€1.3mn	0.0037
Assistance for the development of Roma settlements (infrastructure provision) 2007-09 - annual allocation	€0.9mn	0.0025
Areas with indigenous minorities (loan and grant-based support) - 2010	€2.3mn	0.0066
Financial incentives for FDI (State Aid XR45/2007 in OJEC 2007/C288/07 of 30.11.2007) 2007-13 p.a.	€16.69mn	0.0470

**Note:** The % of GDP data are calculated for all years for which GDP data is available and then averaged.

**Source:** National expert's report.

## **SLOVENIA**

### **Overview**

Domestic regional policy in Slovenia is strongly interlinked with EU Cohesion policy and the majority of policy measures are co-funded by Structural Funds programmes, notably under the Operational Programme for Strengthening Regional Development Potential. Historically, regional policy was primarily concerned with territorial equity focused on selected problem areas (defined at the level of municipalities or parts thereof) and development regions. More recently, the promotion of regional growth and competitiveness has been given more weight. This all-region approach is implemented via region-specific interventions. There are, however still a number of domestic measures which operate according to a more targeted approach.

### **Objectives**

Policy efforts in the field of regional policy go back to 1971 when a group of less developed areas was introduced for the first time, based on the Law for the Promotion of Balanced Regional Development. Between then and 1999, the goal of reducing regional disparities was the core objective under a series of related laws. In 1999, a new Law for the Promotion of Balanced Regional Development was introduced, leading to an approach which was more focused on broader competitiveness factors and regional potential. Since then, regional policy has been implemented throughout the country, but policy measures targeted at specific areas have remained an important part of the policy.

The 1999 law was further updated in 2005; among others things, it set out a very complete list of objectives targeted at the development regions, notably: to reduce disparities in economic development levels and living conditions of the population between individual areas of the country; to prevent the emergence of new areas with major development problems; to promote polycentric development; to enhance economic competitiveness in development regions, taking account of their particularities; to reduce unemployment rates in development regions or increase employment to eliminate structural disparities on the labour market; to promote an integrated approach to the development of rural areas; to reduce differences in quality of life and economic and social welfare; and to enhance settlement areas of indigenous minorities and the Roma community.<sup>1</sup> As a basis for policy, a regional survey was carried out, classifying regions according to their development status.

The proposed introduction of a provincial tier in 2006 triggered a debate on the links between efficiency and growth-oriented policies and convergence. However, the issue has not been resolved as the legal process was protracted. Currently, a new law on regional policy is under preparation, addressing some key issues, such as shifts from infrastructure support to more intangible forms of assistance and, overall, to a more pro-active and strategic regional policy. This involves the identification of investments that maximise regional potential in order to enhance responsiveness to change.

### **Regional problem**

Disparities are mainly linked to the concentration of economic activities and population, leading to significant differences in the spatial distribution of jobs, GDP per capita, unemployment, R&D intensity, education levels etc. Moreover, some areas face poor transport connections and, though not a general problem, there is unequal access to social infrastructures.<sup>2</sup> Problems are compounded in structurally weak, mainly rural areas with low economic capacity. These are often faced with demographic problems and low income levels. Following EU accession, some of these problems intensified.

With respect to GDP disparities, the Osrednjeslovenska region alone produced more than one third of total Slovenian GDP in 2007, while weaker regions saw their GDP per capita deteriorate, going down to 65.2 percent of national GDP per capita in 2007 in the Pomurska region and 66.1 percent in the Zasavska region.<sup>3</sup> Unemployment rates in 2009 varied from 7.4 percent in Obalno-kraška to 20.4 percent in Pomurska.<sup>4</sup> Common causes of long-term unemployment can be found in low education levels and lack of employment opportunities (closure of manufacturing companies, slow creation of new jobs). This is an acute problem in the Notranjsko-kraška region, in Pomurje and Podravje.

The least developed areas are located in the regions bordering Croatia, where local authorities are very small and weak financially, as well as in other parts of Pomurska region, Podravska region and, in part, Koroška region. Moreover, areas with specific features are a focus of domestic policies, notably the Posočje region which was damaged by earthquakes. Despite a concentration of jobs, services and activities in urban areas, Slovene cities remain relatively small and there is no specific urban policy.<sup>5</sup>

### **Policy response**

Most domestic regional policy is tied in closely with EU Cohesion policy. However, there are a number of measures which are solely funded by domestic sources. Generally, they consist of rather traditional instruments focused on regional aid, infrastructure provision, including business zones and encouraging human resource development. In the past (2002-06), programmes were implemented in the Zasavje region to support the restructuring of former mining areas and in the Posočje region to help with the earthquake damage. The latter programme was extended (2007-13) to stimulate investment and job creation, human resource development and economic infrastructure. Funds are, however, limited, amounting to €9.2 million for the whole period.<sup>6</sup> In addition, assistance is provided for the development of Roma settlements via local infrastructure investment (€2.7 million over three years). Moreover, areas with indigenous minorities are assisted through loan and grant-based support to investment, farm cooperatives and job creation (€2.3 million in 2010).<sup>7</sup>

In terms of broader regional policies, there are no national 'all-region' development policies that are not driven by EU Cohesion policy. Moreover, it is hard to identify a spatial approach in sectoral policies and there is no coordination between regional and sectoral policies outside EU Cohesion policy. There are, however, policies with a strong regional impact, such as rural development policy (due to overlapping support areas), tourism policy

which promotes balanced regional development,<sup>8</sup> and employment policy with a spatial focus on less developed regions. More recently, there have been signs for emerging cross-sectoral cooperation in the framework of the 2010-15 development support for the Pomurje region (see below).

Regarding equalisation measures, funding is allocated to local authorities for infrastructure development, based on a specific formula (around €43.4 million in 2009). A system of fiscal equalisation operates at the level of municipalities, but with no explicit cohesion objective. There has been an increase in the number of municipalities dependent on related transfers and, in 2006, a considerable proportion of them received funding that exceeded their own resources by over 100 percent. Equalisation losses incurred by the capital city, Ljubljana, under the New Financing of Municipalities Act (which came into force at the start of 2007) will be compensated for by State transfers based on a Capital City Law.<sup>9</sup>

### **Policy features**

There is a hierarchy of strategic documents, but their status and the links between the individual documents are not always clear. Objectives relating to cohesion can be identified in the 2005 Development Strategy, the main long-term strategy of the Government.<sup>10</sup> In addition, the 2004 Spatial Strategy is an integrated planning document, based on the concept of sustainable spatial development.<sup>11</sup> Together, the documents form a framework for development policies and are at the basis of sectoral coordination. Despite the fact that these documents refer to cohesion objectives, related ambitions are not necessarily put into practice, except under regional policy.

The four development priorities mentioned in the Development Strategy relate to (i) exceeding EU average economic development (in terms of GDP per capita in PPP) and increasing employment in line with Lisbon goals; (ii) improving quality of life and welfare; (iii) anchoring the sustainability principle in all development fields; and (iv) promoting Slovenia internationally. The 2008 National Development Programme (NDP) translates these guidelines into development programmes in line with budgetary requirements. The Spatial Development Strategy promotes polycentric urban development and regional spatial development, but there is still a lack of planning instruments at the regional level (e.g. regional spatial plans).

Until 2005, regional policy was oriented at target areas based on specific features, mainly located in rural and old industrial areas. These remained unchanged over three decades, questioning the usefulness of the approach. Already from 1999, regional policies were broadened to cover the whole territory, with a focus on areas with specific development problems. These were abandoned under the 2005 law and less-developed regions are conceived in terms of endogenous development factors (e.g. lack of human capital, entrepreneurship, investment). In 2004, the Decree on preferential areas of regional policy was adapted, classifying the country's twelve statistical regions into four categories (A-D) based on an 'endangered' development index using more than 30 indicators weighted by GDP and population data.

Policy implementation remains strongly centralised due to the lack of a strong intermediate

tier. Programmes are managed by the Government Office for Local Self-Government and Regional Policy (GOSP, *Služba Vlade Republike Slovenije za lokalno samoupravo in regionalno politiko*), notably through the Slovenian Regional Development Fund (*Javni sklad Republike Slovenije za regionalni razvoj in razvoj podeželja*), the main instrument for domestic regional policy. The fund was set up in 1999 and offers loans, grants and guarantees. There are signs of a more integrated approach, since the 2005 law conceives regional policy as a governmental responsibility, requiring improved coordination following a multi-level governance approach. The focus on regional projects and capacity building is also to be enhanced.

### **Importance of Cohesion policy**

Cohesion policy funding is used extensively in financing national (and sub-national) policies. For the 2007-13 period, Slovenia has been allocated €4.1 billion under the Convergence objective. To complement this EU investment, Slovenia's overall annual contribution is expected to reach €957 million. Due to the importance of Cohesion policy as a source of funds, it has had a strong influence over national strategic objectives and priorities insofar as Slovene strategic documents, such as the 2005 Development Strategy, have been aligned with EU strategies for territorial development.

In the context of an integrated budget and in line with the Public Finance Act, domestic funds and Structural Funds are allocated via the same channels. All regions have prepared Regional Development Programmes (RDPs) that set out the tasks of the State and the municipalities in the sphere of economic, social, spatial, environmental and cultural development of the regions. RDPs represent the legal basis for the implementation of regional policy financed from Cohesion policy. There is also a degree of institutional overlap. For example, the Government Office for Local Self-Government and Regional Policy both administers narrow regional policy and acts as the Managing Authority for Structural Funds implementation. It is composed of two departments: the Local Self-Government and Regional Development Department, and the Cohesion Policy Department. The Government Office for Local Self-Government and Regional Policy also coordinates national and EU regional policies.

Structural Funds and the Cohesion Fund had an important value added as early as the 2004-2006 period. They introduced new management and implementation system as well as new forms of intervention. In a context characterised by a general lack of communication, the main innovation was that the system entailed improved inter-ministerial coordination and sustained efforts to achieve synergies among involved actors. Also, there is no evaluation tradition in Slovenia and awareness of the importance of policy evaluation has been raised as a result of Structural Funds requirements.<sup>12</sup>

### **Impact of the crisis**

Economic conditions in Slovenia began to deteriorate in the final quarter of 2008, due to the impact of the financial and economic crisis, while economic activity fell sharply in the first half of 2009. Concerning policy objectives, on the whole, economic factors are beginning to prevail over social and territorial objectives. The economic crisis had different

regional impacts. The registered unemployment rate, for example, increased disproportionately in regions that had already been suffering from high unemployment.<sup>13</sup> Regions and sub-regional areas that were most severely hit by the economic crisis receive special treatment by the Slovene Government in 2009 and 2010 (Pomurje region, Bela krajina). A law on support for the Pomurje region was introduced in late 2009, which includes a programme to foster regional competitiveness in 2010-2015, employment incentives, tax relief for investments, as well as priority treatment for programmes and projects in the region.<sup>14</sup> There are also plans for a similar programme for Bela krajina.

As a response to the crisis, the Government adopted a Slovenian exit strategy 2010-2013 in February 2010.<sup>15</sup> A key task is to ensure consistency of short-term anti-crisis measures (including the adjustment of Cohesion policy implementation) with objectives for long-term structural change. One of the proposed measures is the Programme of Development Priorities and Investments (DRPI), a medium-term instrument for development planning. Apart from strategic national priorities, the DRPI will also incorporate the priorities of adopted regional development programmes, if considered to be of national importance, as well as individual projects under the Resolution on National Development Projects for 2007-2023, that the government adopted in October 2006. The purpose of the Resolution is to meet the objectives of Development Strategy and National Development Programme more quickly with clearly set core development projects.

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#### ENDNOTES

<sup>1</sup> *Act on Promotion of Balanced Regional Development* (Official Journal of the Republic of Slovenia, 93/05, 127/06).

<sup>2</sup> Služba Vlade RS za lokalno samoupravo in regionalno politiko (2008) *Operativni program krepitve regionalnih razvojnih potencialov za obdobje 2007-2013*, p. 45 [URL: <http://www.euskladi.si/publikacije/OP/2007-2013/download/OP-RR.pdf>].

<sup>3</sup> See: Statistical Office of the Republic of Slovenia [URL: [http://www.stat.si/eng/novica\\_prikazi.aspx?id=2788](http://www.stat.si/eng/novica_prikazi.aspx?id=2788)].

<sup>4</sup> *Ibid.*

<sup>5</sup> Služba Vlade RS za lokalno samoupravo in regionalno politiko (2008) *Nacionalni strateški referenčni okvir 2007-2013*, p.47 [URL: <http://www.euskladi.si/publikacije/OP/2007-2013/download/NSRO2007-2013.pdf>].

<sup>6</sup> Posoški razvojni center (2007) *Program spodbujanja razvoja v Posočju 2007-2013 (Soča 2013)* [URL: <http://www.prc.si/publikacije/ostale-publikacije/program-spodbujanja-razvoja-v-posocju-20072013-soca-2013>].

<sup>7</sup> *Poslovni in finančni načrt Javnega sklada Republike Slovenije za regionalni razvoj in razvoj podeželja za leti 2010 in 2011* (Annual plan of Slovenian Regional Development fund for the years 2010 and 2011).

<sup>8</sup> Ministry of the Economy (2007) *Development plan and policies of Slovene tourism 2007-2011: Summary*, p.2-5. Rural development policy and tourism policy are almost completely funded through EU Cohesion policy, though employment policy is partly (around 50 percent) financed out of national funds, but as part of the active labour market programme.

<sup>9</sup> See: Ministry of Finance [URL: [http://www.mf.gov.si/slov/fin\\_loksk/izracuni/glavnomesto2010.htm](http://www.mf.gov.si/slov/fin_loksk/izracuni/glavnomesto2010.htm)].

<sup>10</sup> Urad Republike Slovenije za makroekonomske analize in razvoj (2005) *Strategija razvoja Slovenije* [URL: [http://www.umar.gov.si/fileadmin/user\\_upload/projekti/02\\_StrategijarazvojaSlovenije.pdf](http://www.umar.gov.si/fileadmin/user_upload/projekti/02_StrategijarazvojaSlovenije.pdf)].

<sup>11</sup> Ministrstvo za okolje, prostor in energijo (2004) *Strategija prostorskega razvoja Slovenije* [URL: [http://www.mop.gov.si/fileadmin/mop.gov.si/pageuploads/publikacije/drugo/sprs\\_slo.pdf](http://www.mop.gov.si/fileadmin/mop.gov.si/pageuploads/publikacije/drugo/sprs_slo.pdf)].

<sup>12</sup> European Policies Research Centre (EPRC) and Metis (2008) *Overview of Management and Implementation Systems of Cohesion policy in 2000-06, Slovenia*, Ex post evaluation of Cohesion policy programmes 2000-2006 co-financed by the ERDF (Objective 1 and 2), Work Package 11: Management and Implementation Systems for Cohesion policy.

<sup>13</sup> Government Office for Local Self-government and Regional Policy (2010) *Spremembe operativnih programov kohezijske politike Cilja 1 v Sloveniji: predstavitev z utemeljitvijo in vrednotenjem*, April 2010, p.8.

<sup>14</sup> Act regulating development support to the Pomurje region in the period 2010-2015 (Official Journal of the Republic of Slovenia, 87/09) [URL: [http://www.svlr.gov.si/fileadmin/svlsrp.gov.si/pageuploads/PROJEKTNA\\_PISARNA\\_-\\_POMURJE/ANGL\\_Zakon\\_Pomurje.pdf](http://www.svlr.gov.si/fileadmin/svlsrp.gov.si/pageuploads/PROJEKTNA_PISARNA_-_POMURJE/ANGL_Zakon_Pomurje.pdf)].

<sup>15</sup> Vlada Republike Slovenije (2010) *Slovenska izhodna strategija 2010-2013* [URL: [http://www.vlada.si/fileadmin/dokumenti/si/projekti/Protikrizni\\_ukrepi/izhod\\_iz\\_krize/IZHODNA\\_STRATEGIJA.pdf](http://www.vlada.si/fileadmin/dokumenti/si/projekti/Protikrizni_ukrepi/izhod_iz_krize/IZHODNA_STRATEGIJA.pdf)].





## 25. SPAIN

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
44.879	87.2	8.9	5152.6	505987	1051151	104.1

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	20.5	20.5	20.3	19.8	19.1	18.8	18.4	18.4	
GDP(PPS) per head (NUTS3)	20.6	20.5	20.2	20.4	19.8	19.4	19.1	19.0	
Unemployment rates (NUTS2)	35.9	39.2	37.6	36.9	32.3	31.7	30.2	29.1	30.6
Unemployment rates (NUTS3)	39.2	42.1	43.6	42.4	37.2	37.3	33.8	31.7	33.0
Employment rates (NUTS2)	10.8	10.7	10.0	9.3	9.0	8.7	8.3	7.8	7.5
Employment rates (NUTS3)	11.9	11.5	10.9	10.3	9.9	9.7	9.1	8.5	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

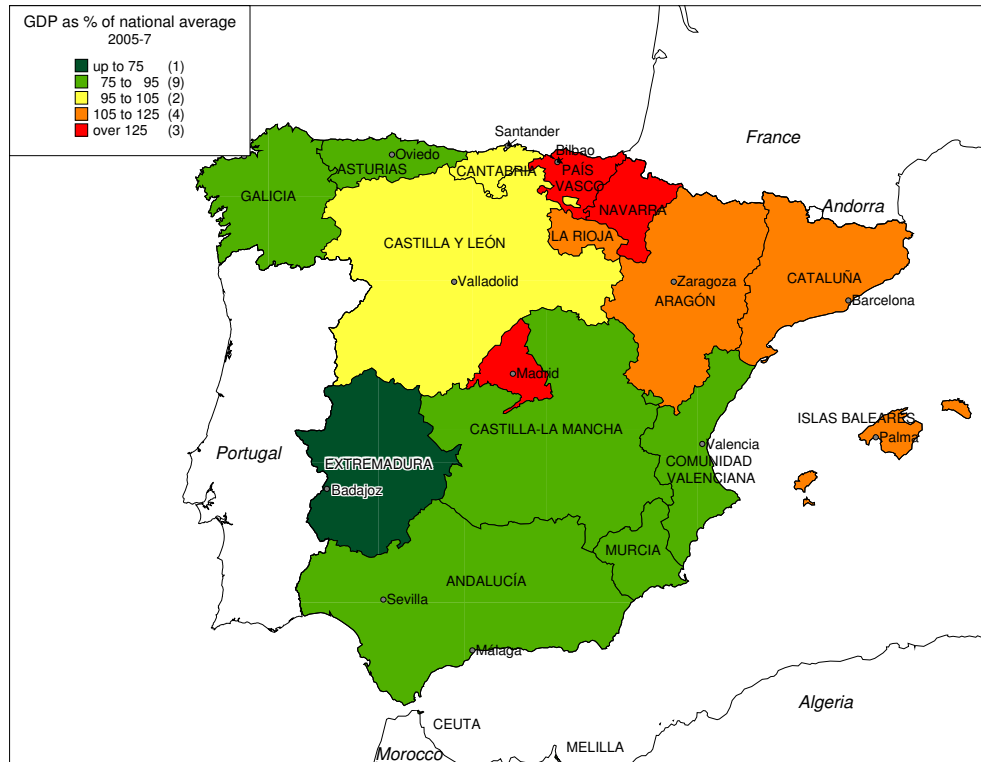
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Spain	17200	18500	19400	20600	20900	21900	22900	24700	26200
Min	10900	11800	12400	13300	13700	14500	15600	16800	18000
Max	23200	25200	26200	27400	27600	28700	29900	32300	34100
<b>GDP(PPS) per head NUTS 3</b>									
Spain	17200	18500	19400	20600	20900	21900	22900	24700	26200
Min	10900	11500	11900	13100	13700	14200	14700	15800	17000
Max	24700	25600	28000	28700	28900	30200	32000	35300	37900
<b>Employment rates NUTS 2</b>									
Spain	43.8	45.6	46.8	47.4	48.5	49.6	51.5	52.7	53.4
Min	36.2	37.3	38.5	39.2	40.7	41.2	42.8	41.0	40.3
Max	51.9	54.6	54.6	55.5	55.9	56.6	57.4	59.2	59.2
<b>Unemployment rates NUTS 2</b>									
Spain	15.7	13.9	10.5	11.5	11.5	11.0	9.2	8.5	8.3
Min	8.1	5.6	4.5	5.7	5.7	5.5	5.6	5.3	4.8
Max	27.2	24.6	18.7	19.7	18.8	18.2	19.7	21.0	20.3
<b>Unemployment rates NUTS 3</b>									
Spain	15.7	13.9	10.5	11.5	11.5	11.0	9.2	8.5	8.3
Min	na	na	na	na	na	na	4.7	3.7	3.0
Max	na	na	na	na	na	na	19.7	21.0	20.3
<b>Disposable household income (PPS) per head NUTS 2</b>									
Spain	10170.0	11466.7	12024.7	12678.5	12715.5	12981.1	13718.3	14348.7	14793.3
Min	7594.8	8315.0	8874.8	9429.0	9532.8	9772.9	10561.0	11196.4	11722.6
Max	12671.9	14414.4	15180.3	16037.4	16080.9	16563.6	17648.6	18810.7	19640.5

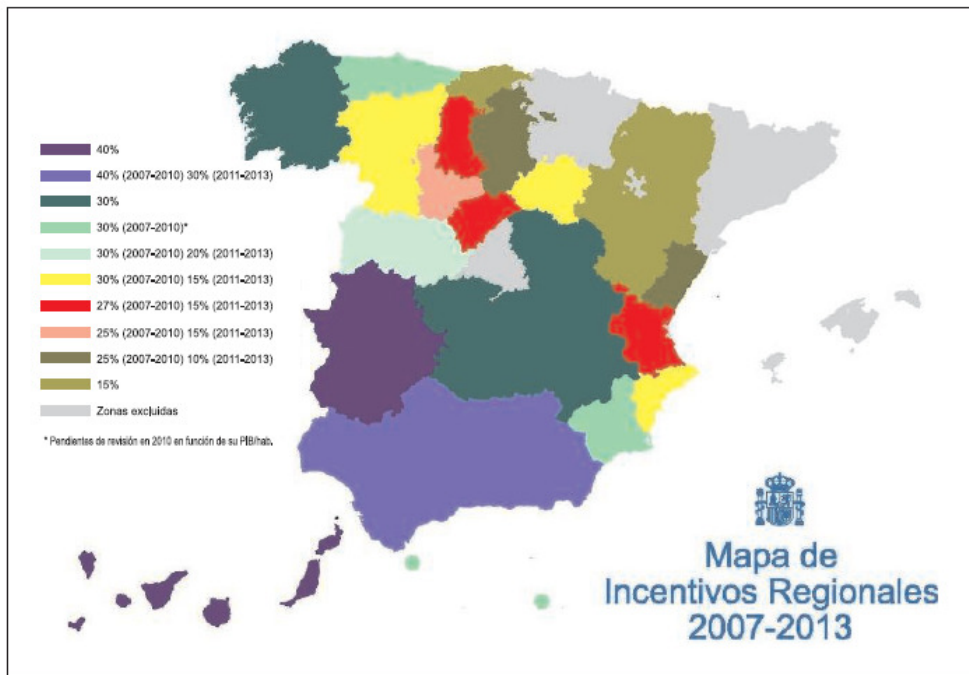
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data.

**Map 2: Regional aid map 2007-13**



Source: Ministry of Economy and Finance ([www.meh.es](http://www.meh.es)).

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.134	0.115	0.113	0.116	0.129	0.159
<b>EfD</b>	4.168	4.543	4.213	4.356	4.592	4.438
<b>Social protection</b>	20.1	20.2	20.4	20.4	20.5	
<b>Cohesion policy</b>	1.154	1.145	0.877	0.586	0.436	0.433

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
3543	21054	1583	4955	3522	559	35217

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
31457.440	0.563	110.8	70.6	0.1942	51.2

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>		% of GDP
• <i>Incentivos Regionales</i> - Regional Investment Grant (RIG) - 2008	€295mn	0.0271
• <i>Fondo de Compensación Inter-Territorial</i> - Inter-Territorial Compensation Fund (ICF) - 2005-09 annual average	€1.2bn	0.1185

**Source:** National expert's report.

## SPAIN

### Overview

Spain's national regional policy is anchored in the constitutional commitment to solidarity, which aims to "promote the conditions favourable to a more equitable distribution of income" and "oversee the establishment of a fair and adequate economic balance between the different parts of the Spanish territory." It comprises two policy instruments, a business investment grant for assisted areas and a budgetary transfer mechanism (*Fondo de Compensación Inter-Territorial*, ICF) for public infrastructure projects in the less developed regions. The ICF was initially used to fund the transfer of competences to the regions during the 1980s, but was subsequently restricted to regions with Objective 1 status under EU Cohesion policy. The Regional Investment Grant (*Incentivos Regionales*) scheme has remained largely unchanged in terms of its core principles, objectives and governing arrangements, apart from successive adaptations to EU state aid legislation. EU Cohesion policy resources are integrated into existing domestic budgets and co-finance domestic regional policy and other eligible policy fields.

### Objectives

The objectives of national regional policy are set out in the governing legislation of the two policy instruments. For the Inter-Territorial Compensation Fund (ICF), these include "correcting interregional economic disparities" and "facilitating the achievement of solidarity". The fund is allocated to regional governments for public investment expenditure and, specifically, for the realisation of projects of a local, *comarcal* (grouping of municipalities), provincial or regional nature that contribute to the reduction of interregional disparities in income and wealth. The stated objectives of the Regional Investment Grant are that of "reducing economic disparities in the national territory, redistributing economic activities in a more balanced way and reinforcing the potential for endogenous development in the regions."

### Regional problem

The regional accounts published by the national institute of statistics often highlight the so-called Ebro axis (named after the river which crosses the regions of Cataluña, Aragón, La Rioja, Navarra and the País Vasco) as marking a defining north-south division in regional disparities. More generally, there are significant regional development differences between NUTS 2 regions in terms of unemployment rates and GDP per head (see Map 1), with regional differences especially noticeable in rural, sparsely-populated areas. The most advanced urban areas tend to have high industrial activity, population density, and metropolitan features (e.g. Madrid, Barcelona, Bilbao and Bizkaya Province, Seville, Valencia, etc), though they have also been more vulnerable to the economic crisis given major lay-offs by manufacturing firms. Key characteristics of the less developed regions include: border region status (Castilla y Leon), mountain and sparsely populated areas (Navarra, Extremadura, Aragon, Castilla La Mancha), specific adjustment difficulties (old-industrial areas suffering from unemployment and structural economic problems) (Asturias, parts of Andalucía, Galicia, Cantabria), island regions (Balearic Islands), outermost regions

(Canary Islands), and/or high dependence on one specific economic sector (construction, services, for example).

### **Policy response**

National regional policy accounts for just over 1 percent of the national state budget. Of the two instruments, the ICF has greater financial weight with a budget of €1.2 billion in 2010 and an average €1.3 billion over the previous five years. The budget for the RIG was of the order of €295 million in 2008, although the previous five-year average is around €330 million. The scale of EU Cohesion policy funding is much higher than both domestic instruments at €5 billion annually over the 2007-2013 period.

As noted, the objectives of the ICF are to correct interregional economic disparities and promote solidarity through financial support for regional government investment projects. The main types of project supported are motorways and roads, education and health facilities, and water and environment infrastructure. Eleven (out of 17) regions are eligible for support and the funds are distributed on the basis of a fixed methodology which takes account of population, migration flows, unemployment, surface area and population density. The allocations are adjusted by a factor which is inversely proportional to the region's income per head and special treatment is given to Canarias due to its geographic insularity.

The RIG is a business aid scheme for manufacturing and some service sector projects. The key objectives are to reduce disparities, redistribute economic activity in a balanced way and reinforce endogenous development. Additional objectives are specified in the Royal Decrees for each eligible region, such as “offsetting the negative effects of industrial decline” or “sustainable development.” Eligibility is limited to Article 87(3)(a) areas under EU Competition policy, plus the region of Cantabria and the province of Teruel in Aragón. Award rate limits range between 40 percent (Extremadura, Canarias) and 15 percent (Aragon) of eligible investment (see Map 2). With respect to decision-making, project proposals are initially screened by regional governments, but responsibility for approval lies with the Ministry of Economy and Finance.

From a sectoral policy perspective, practically all national (and regional) policies have direct or indirect consequences for cohesion. Indeed, EU Cohesion policy itself co-finances a broad portfolio of national and regional sectoral policies. However, the domestic components are implemented in all regions and are not generally underpinned by explicit cohesion objectives in their legal texts.

A broader dimension of domestic regional policy is the activities of regions. In Spain's highly devolved political system, regional programming and strategy development has been firmly institutionalised at the regional level since the 1980s, with a major impetus provided by EU Cohesion policy programming requirements.

Lastly, a key component of Spain's approach for addressing regional disparities is its fiscal equalisation system. The latest four-year model was agreed in 2009.<sup>1</sup> It includes a Guarantee Fund to ensure that all regions have sufficient resources to provide a minimum

level of basic public services, distributed on the basis of a regional expenditure needs formula. The two other Convergence Funds aim to promote convergence between regions in terms of GDP and funding per head. One, the Cooperation Fund, is targeted at the less developed regions (with GDP per capita below 90 percent of the national average) and those witnessing unfavourable population dynamics (in terms of low growth and density), while the second is a Competitiveness Fund which aims to raise the level of resources that flow to those regions that receive relatively less funding per head from the system (i.e. the more developed regions).

### **Policy features**

The overall framework for domestic regional policy is set by the Constitution, which includes the goal of ensuring equitable income standards and economic balance between the different parts of the Spanish territory. Outside of Cohesion policy, there are no specific frameworks to strategically guide the two instruments of domestic regional policy, although their principles and operational conditions are specified in legal documents agreed in cooperation with the regions.

Policy objectives are framed in relation to the overarching constitutional goal of ensuring equitable income standards, with an emphasis on reducing regional economic disparities by supporting regions whose level of economic development is below the national average. The ICF takes its threshold reference point from EU Cohesion policy, being restricted to regions designated as Objective 1 in previous programme periods.

Due to Spain's highly devolved system, the autonomous communities have significant decision-making and implementation responsibilities in economic development, supported by regional development strategies. The high degree of regional autonomy also explains why the ICF is implemented on a devolved basis by regional governments. The regions also have an important decision-making role under the RIG, although final project approval is granted at national level.

Coordination is ensured through several mechanisms. At a political level, the key intergovernmental mechanism is the sectoral conference which brings together national and regional ministers responsible for specific policies (e.g. economy, transport, employment etc.). At a technical level, national regional policy instruments are supported by sub-committees of national and regional civil servants who decide on administrative issues as well as the approval of projects in the case of the RIG. For sectoral policies, the key coordination instrument is the State-Region Agreement, a flexible contractual arrangement for agreeing and implementing national policy interventions in the regions.<sup>2</sup>

### **Importance of Cohesion policy**

Domestic regional policy is subsumed within the strategic framework of EU Cohesion policy. The objectives of the NSRF are directly informed by the Lisbon strategy, namely: making Spain a more attractive place to invest and work; improving knowledge and innovation to boost growth; more and better jobs. These objectives are translated into a range of thematic priorities, but the most significant shift in the current period is the reorientation

towards R&D and innovation. Nevertheless, Cohesion policy strategies and priorities are essentially based on existing policies and plans decided by sectoral ministries and departments in national and regional contexts.

In terms of funding, EU Cohesion policy has historically accounted for a sizeable share of economic development spending, especially in the poorer regions.<sup>3</sup> Domestic regional policy and EU Cohesion policy funding processes are fully integrated. As noted earlier, both regional policy instruments are co-financed by Cohesion policy, as are a wide range of other national and regional sectoral policies.

The administration of national regional policy instruments has been subsumed within the Directorate-General for EU Funds through two specific units. The DG has general management and coordinating responsibility for all 23 ERDF (including one Cohesion Fund) programmes, which it exercises under a joint management approach with the regions.

Regarding the overall impact of EU Cohesion policy on domestic approaches, the main influences have been on the spatial targeting of national regional policy instruments, the general mainstreaming of horizontal EU priorities (especially on the environment), the alignment of economic development planning cycles, and enhanced intergovernmental coordination.

### **Impact of the crisis**

The impact of the crisis on Spain has been dramatic, especially on the labour market. By the last quarter of 2008, the unemployment rate had increased by 65 percent, and the trend worsened during 2009. By the first quarter of 2010, average unemployment in Spain exceeded 20 percent. Geographically, regions such as Andalucía and Canarias have been worst affected with unemployment rising to above 27 percent, followed Extremadura (23.5 percent). In contrast, the three least-affected regions were País Vasco (10.9 percent), Navarra (12.3 percent) and Cantabria (14.5 percent). In general, the most adversely affected regions are those with a lower proportion of industrial economic activity, or with a mixed economy with a higher proportion of tourism, traditional (internal market) industries such as agro-food and construction sectors, or with more traditional industrial activity but less modern sectors.

The national response was articulated in a Plan to Boost the Economy and Employment (or Plan E), comprising a package of 80 measures. This included the creation of two funds: a Special Fund for Employment and Economic Reactivation of €3bn for strategic projects in several sectors (e.g. motor industry, environmental measures, R&D and innovation, construction etc); and a Fund for Local Investment of €8 billion distributed to all municipalities in relation to population for immediate investment in new public works projects. The main change to national regional policy was the adjustment of the RIG's selection criteria to give more weight to stable job creation, including an increase in award rates depending on the number of jobs created.



**ENDNOTES**

<sup>1</sup> Consejo de Política Fiscal y Financiera (CPFF, 2009) “Acuerdo 6/2009, de 15 de julio, para la reforma del sistema de financiación de las comunidades autónomas.” Madrid, 15 July 2009.

<sup>2</sup> OECD (2007) ‘Linking Regions and Central Governments: Contracts for Regional Development’, OECD, Paris.

<sup>3</sup> Cordero Mestanza G (2004) ‘La rentabilidad económica y social de los Fondos Estructurales: experiencia y perspectivas’ Presupuestos y Gasto Público, Secretaría General de Presupuestos y Gastos, Instituto de Estudios Fiscales.; Correa, M.D. and Manzanedo, J. (2002) “Política regional española y Europea. Período 1983-1999”. Documento de trabajo SGFCC-2002-05, Secretaría de Estado de Presupuestos y Gastos, Ministerio de Hacienda, Madrid

## 26. SWEDEN

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	22.3	2.6	296.9	441370	287883	121.3
9.148						

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	16.2	15.7	14.8	15.3	14.8	15.6	16.4	15.3	
GDP(PPS) per head (NUTS3)	16.2	15.8	14.9	15.3	14.8	15.6	16.3	15.3	
Unemployment rates (NUTS2)	29.6	30.4	23.9	17.3	15.8	13.0	12.5	11.9	10.1
Unemployment rates (NUTS3)	31.9	33.2	26.2	19.8	18.4	15.3	14.9	14.2	12.6
Employment rates (NUTS2)	4.8	4.5	4.2	4.6	4.3	4.4	3.0	2.9	2.4
Employment rates (NUTS3)	5.2	4.8	4.5	5.0	4.6	5.1	3.4	3.3	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

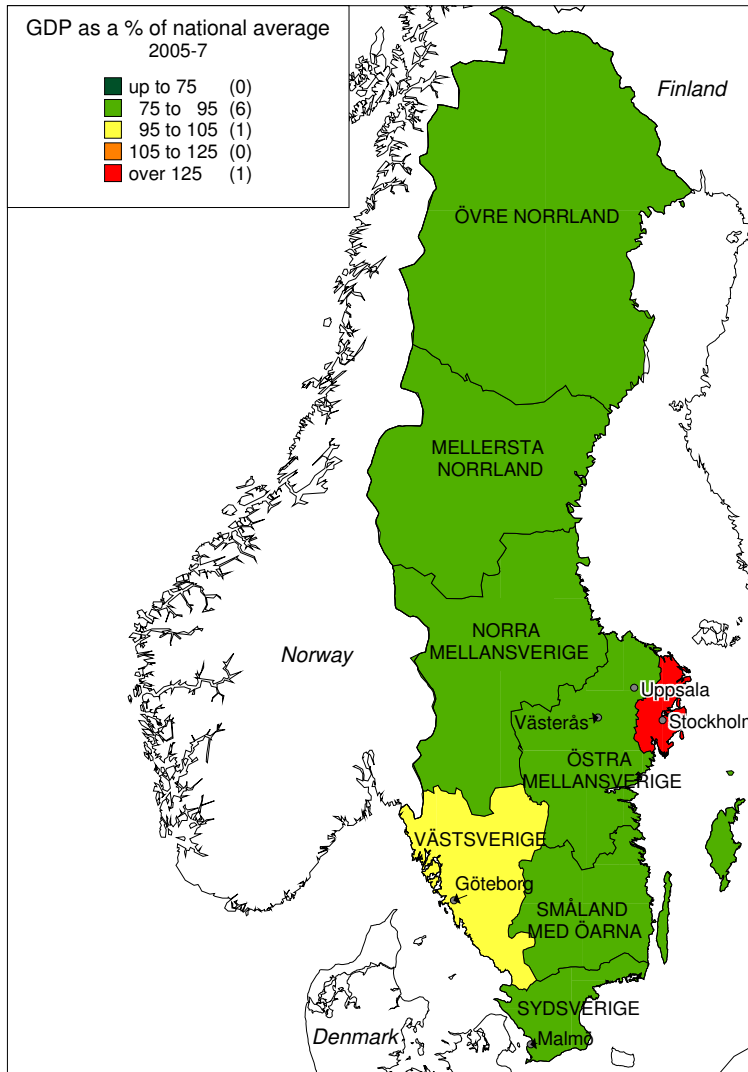
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
Sweden	22300	24100	24000	24800	25400	27000	27100	28600	30600
Min	19000	20700	20600	21400	21900	23100	23100	24700	26500
Max	31300	33500	32700	34000	34500	37200	37600	38900	41000
<b>GDP(PPS) per head NUTS 3</b>									
Sweden	22300	24100	24000	24800	25400	27000	27100	28600	30600
Min	17100	18800	18800	19700	19900	21600	21600	22800	24400
Max	31300	33500	32700	34000	34500	32700	37600	38900	41000
<b>Employment rates NUTS 2</b>									
Sweden	64.0	65.1	66.7	66.4	65.8	65.0	65.1	65.9	66.8
Min	56.8	60.2	61.3	59.7	58.3	57.4	na	na	64.6
Max	69.9	72.1	73.3	73.6	72.7	71.9	na	na	69.9
<b>Unemployment rates NUTS 2</b>									
Sweden	7.6	5.4	4.8	5.1	5.7	6.5	7.5	7.1	6.2
Min	3.9	3.2	3.3	3.9	4.4	5.2	na	na	5.1
Max	11.5	9.0	6.7	6.3	7.3	7.9	na	na	7.1
<b>Unemployment rates NUTS 3</b>									
Sweden	7.6	5.4	4.8	5.1	5.7	6.5	7.5	7.1	6.2
Min	3.9	3.2	3.3	3.2	3.8	4.6	na	na	4.1
Max	14.6	11.4	7.7	7.7	9.2	9.5	na	na	7.8
<b>Disposable household income (PPS) per head NUTS 2</b>									
Sweden	10449.2	11388.8	11962.9	12490.1	12706.9	13150.4	13450.2	14060.3	14982.7
Min	9388.2	10117.6	10517.8	11024.6	11213.4	11811.9	12068.3	12579.5	13621.7
Max	12167.2	13334.0	14268.6	14770.1	14822.9	15144.6	15517.2	16181.6	17070.7

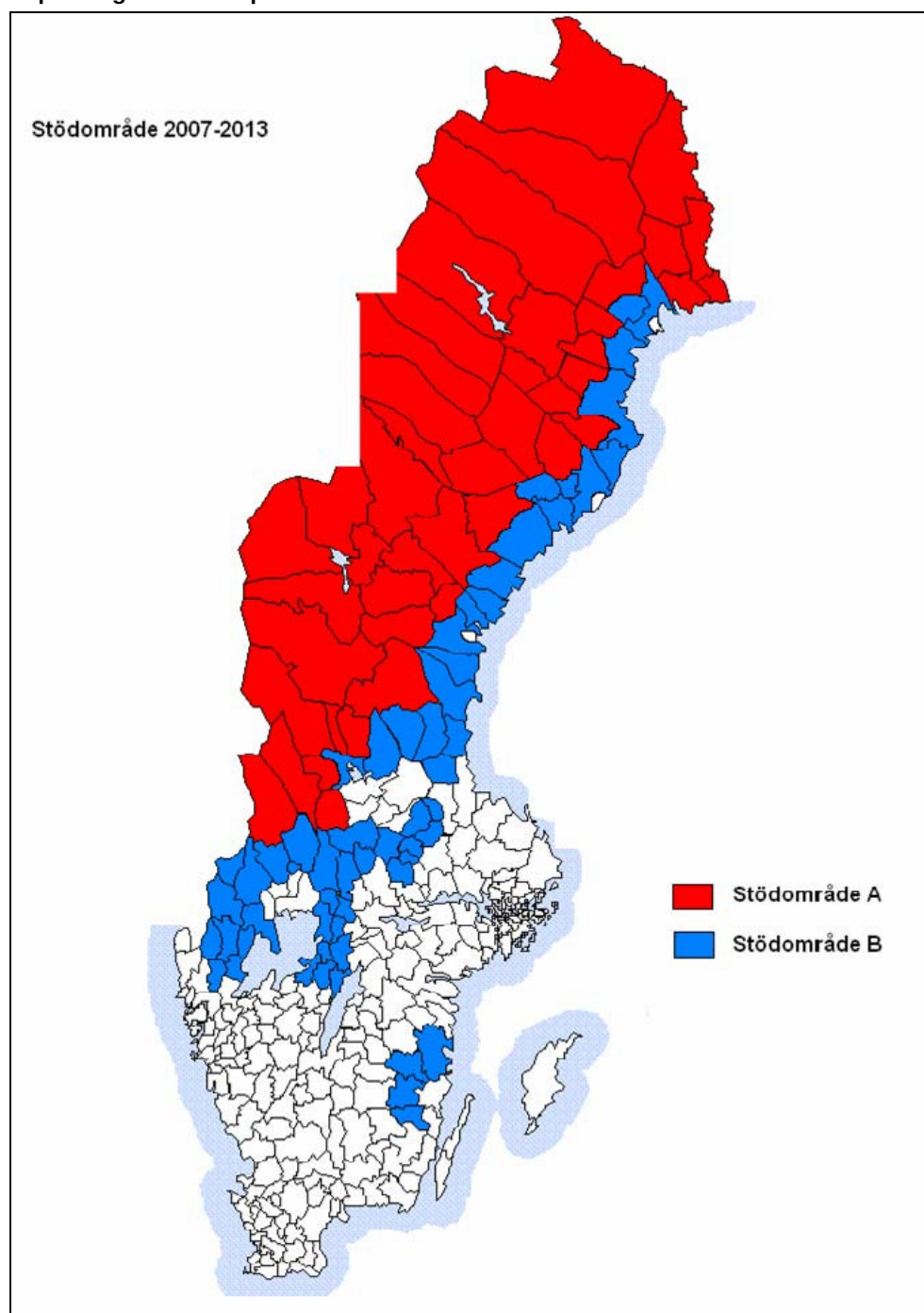
Source: Eurostat

**Map 1: Regional GDP per head (2005-7) % of national average**



Source: Own elaboration from Eurostat data

Map 2: Regional aid map 2007-13



Source: Swedish Agency for Economic and Regional Growth (Tillväxtverket), available at <http://www.tillvaxtverket.se/download/18.2951bcb412700b68b8680002824/Karta+St%C3%B6domr%C3%A5de+A+och+B.pdf> (accessed 28.07.2010).

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Regional aid	0.020	0.032	0.041	0.045	0.040	0.049
EfD	2.250	2.180	2.409	2.167	2.220	2.386
Social protection	31.9	31.4	30.9	30.1	29.0	
Cohesion policy	0.142	0.140	0.124	0.097	0.090	0.046

Note: EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

Source: DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
				1626	265	1891

Note: Due to rounding, figures may not add up exactly to the total shown.

Source: DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

EU commitment appropriations				National cofinancing	
Total (€mn)	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
1678.008	0.086	26.9	51.4	0.0762	21.5

Source: Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	2008 data million		% of GDP
	SEK	€	
• <b>Regional aid awards – of which:</b>	<b>2100</b>	<b>218</b>	<b>0.0653</b>
• Regional investment aid	337	35	0.0105
• Regional grant for business development	268	28	0.0083
• Transport grant	594	62	0.0185
• Project funds	827	86	0.0257
• <b>Overall funds allocated to regional projects – of which:</b>	<b>5025</b>	<b>522</b>	<b>0.1564</b>
• From government funds	2000	208	0.0622
• <i>Of which: regional growth measures</i>	828	86	0.0258
• <i>Of which: other state funding (including public agencies)</i>	1172	122	0.0365
• From the EU	1782	185	0.0555
• From private sector finance	466	48	0.0145
• Other funding (including communities and counties)	777	81	0.0242

Source: National expert's report.

## SWEDEN

### Overview

Over the past two decades, Swedish regional policy has moved from a mainly aid-based compensation policy to growth-oriented regional development policy, with responsibilities, resources and tasks transferred to the regional level and greater coordination across sectors. Regional growth policy was introduced following the 2006 election and the adoption of the 2008 Budget Bill.<sup>1</sup> It emphasises the contribution of all regions to national sustainable growth and prosperity, whilst also recognising the challenges facing sparsely-populated problem regions in the north. Under the policy, all regions have the responsibility to utilise their specific strengths to contribute to national growth, adopting a more strategic approach (via regional development programmes) and taking advantage of the different policy instruments available in different areas. Alongside regional growth policy, rural areas have moved up the agenda reflecting a new (2009) rural development strategy. EU Cohesion policy is integrated within the domestic policy approach, with the 2007 national strategy for regional competitiveness, entrepreneurship and employment providing the framework (NSRF) for the 2007-13 Structural Funds programmes.

### Objectives

The 2008 regional growth policy has the objective of achieving “*dynamic development in all areas of the country with greater local and regional competitiveness*”.<sup>2</sup> The growth orientation of the policy is underlined by its focus on competitiveness, on measures to enhance the regional business climate and on improved coordination. At the same time, regional aid policy continues to target the specific problems facing weak and peripheral areas mainly in the north. By continuing to recognise these traditional challenges, regional policy has both growth- and equity-oriented elements. However, there is now more clarity of definition, more emphasis on growth, and more stress on the need for effective coordination (via strategic local, regional and national efforts, as well as more consideration of the regional impacts of key policies).

### Regional problem

Sweden’s geography and climate lead to an uneven distribution of cities and population. Low population densities across most of the country (and very low densities in large parts of the north) create significant demographic, accessibility, service delivery and rural challenges. A divide continues between dynamic urban regions and sparsely-populated rural areas. Most output and population is in the southern metro-regions of Stockholm, Skåne and Västra Götaland where dynamic growth has enhanced economic concentration. Despite this, regional inequalities remain low. Effective regional development is seen to require, for some areas, access to national and international markets and, for others, and a more diversified and sustainable rural economy.

### Policy response

The 2008 Budget Bill introduced regional growth policy to promote growth across all regions (a policy feature since 2001).<sup>3</sup> Regional growth policy aims to enhance local and regional

competitiveness by making regions responsible for developing and exploiting their particular strengths. Specific policies are found in different types of area: including sparsely-populated areas (regional aid schemes); rural localities (the new national rural development strategy); and various categories of urban area (under the national strategy for regional development). Considerable emphasis is placed on programme-based support which continues to favour the northernmost regions.

There are a number of regional aid schemes. For instance, regional investment aid and an employment grant are available to firms in the designated A and B areas which hold 15.3 percent of the national population, mostly in the north (but excluding the three larger cities of Luleå, Umeå and Sundsvall - see Map 2). A regional grant for business development provides investment support for SMEs in rural and sparsely-populated areas and can also be awarded to encourage participation in regional growth or Structural Funds programmes. Finally, a transport grant aims to compensate for some of the extra costs incurred due to long distances from markets in the four most northern regions. In 2008, overall regional aid awards exceeded SEK 2100 million (€218 million), with the most significant support in the form of regional investment aid (SEK 337 million), the regional grant for business development (SEK 268 million), the transport grant (SEK 594 million) and so-called project funds (SEK 827 million), these including support for regional development projects awarded by regional-level organisations such as *Tillväxtverket*, the Swedish Agency for Economic and Regional Growth.<sup>4</sup>

The role of regional development programmes is to provide a longer-term view of regional objectives, facilitate coordination across sectors and between local, regional and national initiatives, and establish a basis for other programmes and measures at the regional level (e.g. regional growth programmes, Structural Funds programmes, county infrastructure plans and environmental programmes).<sup>5</sup> Regional growth programmes aim to stimulate growth at the county level and involve active private-sector participation. They promote sectoral cooperation and interact with, and complement, Structural Funds programmes at the regional level. About half regional growth programme funding comes from the state sector via labour market, regional development, economic, cultural and transport policies. In 2008, the overall funds allocated to regional projects exceeded SEK 5000 million (€520 million), just under two-fifths from government funds (including from public agencies,<sup>6</sup> some 35 percent from the EU, just under one-tenth from private-sector finance and the remainder from other funding sources (including local communities and counties).

Sectoral coordination is clearly a significant component of this all-region approach to regional policy, building upon 2001 regional policy legislation.<sup>7</sup> This specifically highlighted a range of policies which had to take account of their regional dimensions: trade and industry policy, labour market policy, education policy, transport policy, innovation policy, rural development policy and cultural policy. Other examples of sectoral coordination include the 2009 national strategy for rural development which ensures that a broad range of policies consider their impact on rural development;<sup>8</sup> and the new national forum for regional competitiveness, entrepreneurship and employment which provides a platform for national and regional representatives to discuss regional development issues and joint initiatives to realise national and regional objectives and priorities.

## Policy features

Two main strategic documents provide the framework for regional development policy: the 2007 national strategy for regional competitiveness, entrepreneurship and employment; and a 2009 rural development strategy.<sup>9</sup> Both combine a geographical perspective (with varying conditions by area being taken into account when measures are planned or implemented) with a cross-sectoral orientation (coordinating activities across sectors and between policy areas of importance for rural development). The national strategy provides a policy framework for sectoral coordination, national/regional collaboration, establishing policy priorities, and determining the administrative roles in regional development strategies, regional growth programmes and Structural Funds programmes. It focuses on four strategic priorities - innovation and renewal; skills supply and improved labour supply; accessibility; and strategic cross-border cooperation - each adapted to regional and local conditions. In addition, the government has pledged to pay special attention to conditions in the sparsely-populated north. The rural development strategy sets out how the national level can contribute to rural development and sustainable growth (through developing a competitive business sector in all rural areas).

As already mentioned, the goal of regional growth policy is “*dynamic development in all areas of the country, with greater local and regional competitiveness*”. This competitiveness-oriented, all-region approach is complemented by acceptance of the need to continue to address the ongoing problems of the rural, sparsely-populated north.

Responsibility for the regional growth policy coordination and supervision lies with the Ministry of Enterprise, Energy and Communications. Regions have increased their regional development role as county competencies have grown and new programme-based policies have been introduced (regional development programmes, regional growth programmes). Regional responsibility for implementing and coordinating state regional development measures rests either with the government representation in the region, the county administration boards (still applicable in one quarter of the counties), or with municipal co-operation bodies (to which responsibilities are transferred if all municipalities in a county agree - currently the case in seven counties) or with the two directly-elected regional governments of Skåne and Västra Götaland (with Halland and Götland also set to become regional self-governments from 2011).

A new national forum for regional competitiveness, entrepreneurship and employment has been set up to help improve regional growth policy coordination. This forum promotes dialogue between national and regional levels on strategic regional development issues and creates a framework for beneficial information exchange. Three related thematic groups (covering innovation and renewal; skills and labour supply; and accessibility) have strengthened cooperation between government agencies and between agencies and local and regional actors. Coordination has been further enhanced by the establishment of regional coordinators (to coordinate actions and resources locally and regionally in response to the crisis) and by the appointment of a group of State Secretaries to facilitate dialogue between the government and local/regional coordinators. A further aspect of national coordination has been the recent introduction of “rural proofing”, ensuring that the impact of national policies on rural areas is considered prior to their implementation.



### Importance of Cohesion policy

EU Cohesion policy impacts on the strategic objectives and priorities of national policies aimed at economic, social and territorial cohesion, though Cohesion policy is integrated into Swedish regional development policy rather than steering it. The national strategy (which also serves as the NSRF) links regional growth policy to EU Cohesion policy, providing guidelines for both domestic policy and the Structural Funds. Both policies have been integrated within one strategy, with closely-interrelated funding. Implementation is mainly carried out within local and regional programmes and projects - Structural Funds projects, projects financed from the regional growth policy budget, or projects funded by national sector authorities. Often, a project has several funding sources, so that Cohesion policy facilitates the co-financing of objectives which are both domestic and European.

The ERDF accounts for a substantial part of the financing of regional development projects. In 2008, the total volume of funds allocated for regional projects was SEK 5,025 million (€520 million), with some 36 percent (about SEK 1,782 million) from EU-funds.<sup>10</sup> ERDF funds are distributed according to the areas of intervention of the national strategy: innovation and renewal, 80 percent; accessibility, 10 percent; skills and increased labour supply, 5 percent; and strategic cross-border cooperation, 5 percent. In total there are eight ERDF programmes. The geographical distribution of ERDF support follows the pattern of economic development and geographical challenges, with the more densely populated areas receiving less funding than sparsely populated areas and the northernmost areas receiving the lion's share. The three programmes in Northern Sweden have received €614.1 million, the two programmes in Eastern Sweden €118.59 million, and the three programmes in Southern Sweden €201.69 million in the 2007-2013 period. Thus, ERDF spending follows a similar pattern to national policies. The administrative system for domestic policy is more complex than for EU Cohesion policy, though the two are closely linked and often co-finance the same projects. *Tillväxtverket* is the Managing Authority for the eight regional Structural Funds programmes, while the Swedish ESF Council is Managing Authority for the European Social Fund. The main responsibility for implementing domestic development policies lies with the regional level (i.e. county councils, municipality co-operation bodies, county administration boards). In addition, national agencies like *Tillväxtverket* manage certain domestic programmes.

Since EU accession, a range of domestic policy developments have reflected Cohesion policy features: an extended use of (multiannual) development programmes; more reliance on partnership in policy planning and implementation; a shift to an all-region approach, more regional-level responsibilities; a growing policy orientation towards competitiveness and growth (rather than equity); and more stress on sectoral coordination. Overall, EU Cohesion policy has had a considerable influence on Swedish regional policy, not least because it is agenda setting when it comes to the topics addressed. It has also strongly influenced the basic thinking underpinning policy, in particular with regard to the shift from aid-based compensation to growth-oriented development support and the organisational arrangement of policy implementation.

## Impact of the crisis

The drop in global demand impacted most on regions exposed to international markets (mainly Västra Götaland, Stockholm and Skåne). However, in relative terms, the effect of the crisis was largest in regions with weak markets and a high dependence on a few sectors - in particular, vulnerable regions next to metro-regions (e.g. Södermanland, Blekinge and Värmland) and sparsely-populated coastal areas (Västmanland, Gävleborg and Jönköpings). Except for Stockholm and Uppsala, the crisis has tended to bring regional unemployment rates closer to the average.<sup>11</sup> In general, crisis measures have not been regionally-oriented, although government grants to municipalities and counties have grown significantly. In addition, the government has appointed regional coordinators to report on developments and problems and identify cross-regional responses in specific sectors and industries, while a group of State Secretaries has been set up to facilitate national-regional dialogue.

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## ENDNOTES

<sup>1</sup> Budget Bill, 2007/08:1, *Budgetpropositionen för 2008*, 20 September 2007

<sup>2</sup> Budget Bill, 2007/08:1, *Budgetpropositionen för 2008*, 20 September 2007.

<sup>3</sup> Government Bill 2001/02:4, *En politik för tillväxt och livskraft i hela landet*, 27 September 2001

<sup>4</sup> Data from NUTEK, *Uppföljning och resultatvärdering av regionala företagsstöd och stöd till projektverksamhet*, Budgetåret 2008

<sup>5</sup> Förordning (2007:713) om regionalt tillväxtarbete

<sup>6</sup> Two such agencies - *Tillväxtverket* and *VINNOVA* - play important regional roles by supporting business development and innovation (respectively) in the regions.

<sup>7</sup> Government Bill 2001/02:4, *En politik för tillväxt och livskraft i hela landet*, 27 September 2001

<sup>8</sup> Regeringens skrivelse 2008/09:167, *En strategi för att stärka utvecklingskraften i Sveriges landsbygder*, 12 March 2009.

<sup>9</sup> Swedish Government Communication 2008/09:167:Regeringens skrivelse 2008/09:167, '*En strategi för att stärka utvecklingskraften i Sveriges landsbygder*', 12 March 2009

<sup>10</sup> Budgetpropositionen för 2010. Prop. 2009/10:1

<sup>11</sup> OECD Territorial Reviews Sweden (2010), OECD



## 27. UNITED KINGDOM

Figure 1: Basic data

Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area km <sup>2</sup>	GDP (€ mn) 2009	GDP(PPS) per head EU27=100, 2006-8
	Av	Min (Nuts 2)	Max (Nuts 2)			
2007	250.8	7.0	10153.5	243069	1566741	117.7

Source: Eurostat

Figure 2: Regional dispersion of GDP, unemployment and employment

	1999	2000	2001	2002	2003	2004	2005	2006	2007
GDP(PPS) per head (NUTS2)	20.1	21.1	21.3	22.0	21.9	22.1	22.4	22.4	
GDP(PPS) per head (NUTS3)	26.0	27.3	27.2	27.6	27.6	27.3	27.4	27.9	
Unemployment rates (NUTS2)	33.9	34.1	32.7	29.7	30.5	31.5	26.4	25.8	24.8
Unemployment rates (NUTS3)	42.6	41.7	39.6	36.9	37.6	39.0	34.1	32.5	32.4
Employment rates (NUTS2)	7.5	7.1	6.8	6.6	6.1	5.9	5.7	5.5	5.4
Employment rates (NUTS3)	8.7	8.4	8.0	8.0	7.4	7.0	6.7	na	

Note: Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population.

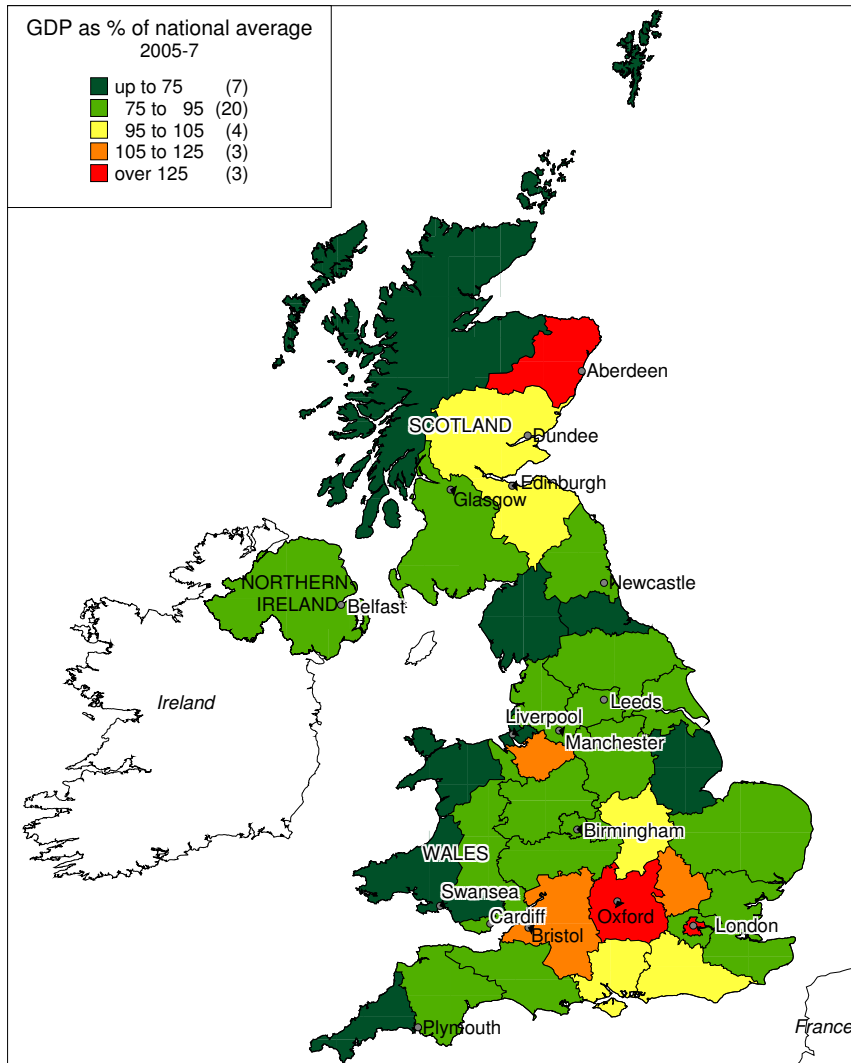
Source: Eurostat

Figure 3: Regional disparities in GDP, unemployment, employment and household income

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>GDP(PPS) per head NUTS 2</b>									
UK	21000	22700	23700	24700	25200	26800	27400	28400	29100
Min	12100	13200	14200	15500	15900	16800	17100	18200	18300
Max	54400	61000	62500	66400	68600	72800	76000	80200	83200
<b>GDP(PPS) per head NUTS 3</b>									
UK	21000	22700	23700	24700	25200	26800	27400	28400	29100
Min	11100	11300	13600	13400	13900	14900	15400	15600	16100
Max	96900	114500	112700	119600	121700	126400	132700	144000	147100
<b>Employment rates NUTS 2</b>									
UK	57.9	58.6	58.7	58.7	58.9	59.0	59.3	59.3	59.2
Min	47.4	49.5	50.2	50.5	50.2	52.9	52.8	52.5	51.4
Max	67.2	68.8	67.9	67.8	68.0	66.4	66.6	68.0	66.5
<b>Unemployment rates NUTS 2</b>									
UK	6.0	5.6	5.0	5.1	5.0	4.7	4.8	5.4	5.3
Min	2.5	2.4	2.7	3.4	2.7	2.4	2.6	2.6	3.3
Max	10.3	9.4	8.5	9.1	9.0	8.9	7.8	8.7	8.1
<b>Unemployment rates NUTS 3</b>									
UK	6.0	5.6	5.0	5.1	5.0	4.7	4.8	5.4	5.3
Min	na	na	na	na	na	na	na	na	na
Max	na	na	na	na	na	na	na	na	na
<b>Disposable household income (PPS) per head NUTS 2</b>									
UK	13338.5	14561.2	15544.0	15784.0	16296.0	16731.2	17218.7	17725.5	17440.0
Min	11139.5	12082.0	12850.5	13185.2	13576.1	14063.8	14177.7	14346.6	14240.0
Max	18060.6	21114.0	21506.1	20884.7	21646.1	22602.0	23833.8	25331.7	24732.8

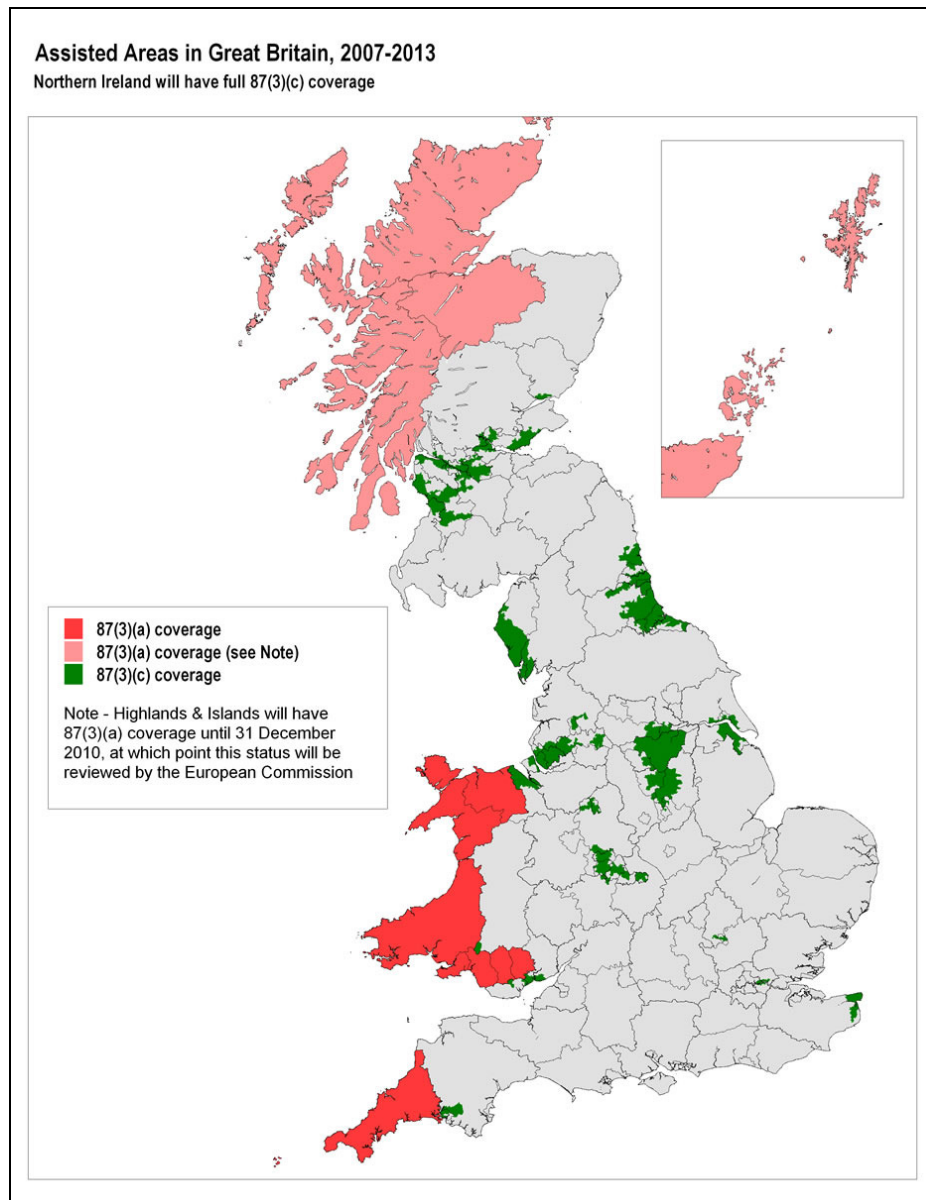
Source: Eurostat

Map 1: Regional GDP per head (2005-7) % of national average



Source: Own elaboration from Eurostat data

Map 2: Regional aid map 2007-13



Source: Department for Business Innovation and Skills, available at: <http://www.berr.gov.uk/files/file38642.png> (accessed 28.07.2010).

**Figure 4: Cohesion related expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
<b>Regional aid</b>	0.050	0.066	0.042	0.030	0.028	0.018
<b>EfD</b>	2.034	2.030	2.039	2.313	2.222	4.397
<b>Social protection</b>	25.3	25.4	25.8	25.6	24.8	
<b>Cohesion policy</b>	0.085	0.125	0.188	0.155	0.115	0.115

**Note:** EfD refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** DG Competition; Eurostat; EU Budget 2008 Financial Report.

**Figure 5: Cohesion Policy 2007-13 – Indicative Financial Allocations (€m, current prices)**

Cohesion Fund	Convergence	Phasing-out	Phasing-in	RCE	Territorial Cooperation	Total
	2738	174	965	6014	722	10613

**Note:** Due to rounding, figures may not add up exactly to the total shown.

**Source:** DG Regio, European Commission.

**Figure 6: Cohesion policy 2007-13 (2004 prices)**

Total (€mn)	EU commitment appropriations			National cofinancing	
	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
9443.860	0.079	22.8	51.5	0.0625	16.9

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.

**Figure 7: Key areas of national spend**

<i>Narrow and broad regional policies:</i>	2007-08	% of GDP
• Regional investment aid across the UK	£200 mn (€233mn)	0.0143
• Contribution of government departments to the RDA Single Pot	£2.3bn (€2.7bn)	0.1644

**Source:** National expert's report.

## UNITED KINGDOM

### Update

The UK general election of 19 May 2010 resulted in a change of government, with a Conservative-Liberal Democrat coalition coming into power after 13 years of Labour government. While there is little information available on the new government's approach to regional policy, sweeping changes are being made to the regional policy delivery framework in the pursuit of further decentralisation. In the emergency budget of June 2010, the government confirmed the abolition of eight of the Regional Development Agencies through the Public Bodies (Reform) Bill (the mayor of London also announced that the London Development Agency will be folded into the Greater London Authority). In their place, the government has invited local businesses and councils to develop their proposals for Local Enterprise Partnerships (LEPs) ahead of publication of the Government White Papers on national and sub-national economic growth. These are expected to be published after the Government's Comprehensive Spending Review on 20 October 2010. The Review was led by the Treasury and sets overall spending limits that the White Papers must reflect in their content. The sub-national White Paper is expected to include more detail on the transition from RDAs to LEPs.

### Overview

In the United Kingdom, regional policy has long been associated with the provision of regional aid in the designated assisted areas, combined with targeted business infrastructure. Prior to the UK general election of May 2010, and the subsequent change of government, the approach to regional policy in the UK was framed by the 2003 consultation document, *A Modern Regional Policy for the United Kingdom*, which adopted an all-region perspective and considered regional disparities to be a consequence of market- or government-based failures to alleviate differences in underlying drivers of productivity. There has also been a commitment to devolved strategy-making and policy delivery, beginning in 1999 with Scottish and Welsh devolution and the decentralisation of arrangements for policy delivery in England with the creation of nine Regional Development Agencies. Since devolution, the regional policy approach described in this report has applied predominantly to England, while the Devolved Administrations (Scotland, Wales and Northern Ireland) have developed their own economic development strategies which emphasise sustainable economic growth regardless of location. This report will therefore focus mainly on the approach to regional policy in place in England prior to the May 2010 election, with information on the new government's regional policy plans provided where available.

### Objectives

Until May 2010, the objectives of regional policy in England were founded on the belief that regional disparities are a consequence of market or government-based failures to alleviate differences in underlying drivers of productivity, and that the five key drivers of productivity (competition, enterprise, innovation, skills and investment) can impact differently across locations and prompt spatial differences. These objectives were framed



by the 2003 consultation document, *A Modern Regional Policy for the United Kingdom*, which was published jointly by the Treasury, the Office of the Deputy Prime Minister (ODPM) and the DTI. The most valuable policy response was considered to be that which provides “the environment for businesses and communities to maximise their potential by tackling market failures in national, regional and local markets through targeted reforms to strengthen the key drivers of productivity, growth and employment”.<sup>1</sup> The document emphasised productivity as the fundamental driver of change in both sub-national and national economic development, and re-stated that the UK approach is a policy for ‘all regions’. Regional development targets were set through the Regional Economic Performance (REP) Public Service Agreement (PSA).

This regional policy framework has now been suspended, pending implementation of the changes introduced by the new coalition government. A detailed account of the new government’s regional policy objectives will only emerge with the publication of the White Paper in the autumn. However, the consultation process launched on the government’s new Regional Growth Fund (RGF) provides some ideas on the approach. The RGF has two objectives that combine productivity and equity considerations:

- to encourage private sector enterprise by providing support for projects with significant potential for economic growth and create additional sustainable private sector employment; and
- to support in particular those areas and communities that are currently dependent on the public sector to make the transition to sustainable private-sector-led growth and prosperity.

It should be noted, however, that there is a lack of clarity over how the RGF will operate in practice, and that it has limited funding compared to RDA budgets (£1.4 billion over three years from 2011-2014).

### **Regional problem**

The government’s main measures of the regional development challenge and the performance of regions focus on growth and employment<sup>2</sup>: Regional Gross Value Added (GVA) per head growth rates; Regional Gross Domestic Product (GDP) per head levels indexed to the EU15 average; Regional Productivity as measured by GVA per hour worked indices; and Regional Employment Rates. These indicators show growing regional disparities in growth and productivity, although employment rates have been improving. Forecasters predict that disparities will widen further over the next five years as the impact of public spending cuts is felt. It is expected that public sector jobs will be lost in all regions, but the greatest impact will be on those regions most dependent on public sector employment - parts of northern England and the Midlands, along with Scotland, Wales and Northern Ireland. Net growth in jobs is also expected to be weaker in these regions.<sup>3</sup>

### **Policy response**

One of the features of the approach to regional development in the UK is that it includes a strong commitment to devolved or decentralised arrangements for regional policy delivery.

This has led to an increasing regional policy stress on regional-level processes and strategies. This can be seen not only in the weight attached to economic development strategies by the Devolved Administrations but also (prior to May 2010) in the growing importance of Regional Development Agencies (RDAs) in England.

In the UK, regional aid is available under Section 7 of the Industrial Development Act 1982 and Section 7 of the Industrial Development (Northern Ireland) Order 1982. The main regional aid instruments provide discretionary grant aid for capital investment, with higher rates of award being available in the designated Assisted Areas. These instruments are: the Grant for Business Investment (GBI) in England, administered by the Department for Business Innovation and Skills (BIS) through the RDAs; Regional Selective Assistance (RSA) in Scotland, administered by Scottish Enterprise and Highlands and Islands Enterprise; the Single Investment Fund (SIF) in Wales, administered by the Welsh Assembly Government; and Selective Financial Assistance (SFA) in Northern Ireland, administered by Invest Northern Ireland. Awards made under these schemes throughout the UK in 2007-08 totalled approximately £200 million (€233 million). The coverage of the designated Assisted Areas is shown in Map 2 above. Northern Ireland is eligible for support in its entirety. It should be noted that, since the May 2010 election, GBI has been frozen in England, and the focus on paying grants and subsidies to companies is significantly reduced. Following an initial total ban, restrictions were eased slightly, but only for grants that did not involve financial commitments beyond March 2010. In Wales, a post-recession refocusing of government resources has been outlined in a new policy document published by the Welsh Assembly Government (WAG). *Economic Renewal: a new direction*<sup>4</sup> heralds a move away from a culture of direct business support, with the Single Investment Fund (SIF) being reallocated to infrastructure projects and six key sectors (replacing the current fourteen), with plans for most of the finance provided by the Economy and Transport Department to gradually move to a repayable model.

Although UK regional policy does not take explicit account of areas characterised by specific features, the devolved nature of the administration of regional policy (via the RDAs in England and the Devolved Administrations in the rest of the country) means that consideration is given at the regional level to the challenges faced by such areas. One example of this is the distinctive treatment of the Highlands and Islands in Scotland, with its own development agency, Highlands and Islands Enterprise, while Scottish Enterprise covers the remainder of Scotland. In this context, it should be noted that there have been changes to the Scottish administrative system over the past couple of years. The number of Scottish Government Departments has been reduced from nine to six and some policy responsibilities have been drawn back under its own direct control. Also of note is the fact that, across the UK, but especially in England, there has been an increased stress on urban economic development and, in particular, on the development role of city-regions.

In terms of broader regional policy, in England, the roles and responsibilities of the RDAs have increased over time, such that, prior to the May 2010 election and their subsequent abolition, they had a major influence on the allocation of economic development spending within their regions. This was achieved, in part, through the merging of dedicated budgets from different central government departments to form a 'Single Pot' budget; in addition, resources allocated to individual RDAs used a complex formula containing nine domains<sup>5</sup>

which had a pro-equity weighting, and which gave each RDA a degree of flexibility to channel funds towards investments prioritised at the regional level. The RDAs operated under a Sponsorship Framework set by BIS, agreeing upon an overall regional growth objective underpinned by five standard outcome focused indicators, consistent with the Government's five drivers of productivity and employment, and in line with the indicators for the REP PSA (GVA per hour worked; employment rate, showing the proportion of the working age population employed; percentage of working age population with basic, intermediate and higher level skills attainment; business gross domestic expenditure on R&D as a proportion of GVA; and business start-up rates). The contribution from the various Government Departments to the Single Pot in 2007-08 amounted to approximately £2.3 billion (some €2.7 billion).

It should be noted that the level of resources devoted to direct regional policy activities (i.e. channelled through the Single Pot to the RDAs) has been very small in comparison to spending on the broad range of 'implicit' regional policies (e.g. education, transport, housing, health etc.). Over the period 2002-07, RDA spending represented approximately 0.7 percent of identifiable public expenditure in the regions.

The Regional Economic Performance PSA set cross-Departmental PSA targets which covered six central government departments. While, in England, BIS was the lead department, and the RDAs were identified as the primary delivery vehicle for achieving the REP PSA target, HM Treasury, Department for Communities and Local Government, Department for Innovation, Universities and Skills, Department for Work and Pensions, Department for Transport and Department for Environment, Food and Rural Affairs were also viewed as contributing departments. The wide-ranging remit of the RDAs via their Single Pot budgets also facilitated coordination.

### **Policy features**

Within the UK, responsibility for economic development is devolved to Scotland, Wales and Northern Ireland, where the Devolved Administrations have developed their own economic development strategies. These have tended to emphasise sustainable economic growth regardless of location.

In England, the overall framework for regional policy was, prior to the May 2010 election, set by the Regional Economic Performance Public Service Agreement (PSA). The Regional Economic Performance (REP) PSA aimed to *"Improve the economic performance of all English regions and reduce the gap in economic growth rates between regions."* Thus the main goal for national and sub-national economic development was enhanced productivity in all regions, but with an equity-related component. The productivity element of this 'twin agenda' dominated stated regional policy objectives, which emphasised productivity as the fundamental driver of change, and focused on the five key drivers of productivity (competition, enterprise, innovation, skills and investment). The equity-based component was delivered through the funding formula for the RDAs, which was weighted towards RDAs working in the most disadvantaged areas. Since the May 2010 election, much of the delivery and coordination framework has been dismantled, including the PSAs. A white paper will be

published later in 2010 that will set out in detail the coalition government's alternative plans for economic development in England.

The previous government was committed to a more decentralised/devolved delivery of regional policy, with the delivery being carried out by the RDAs in England, and the Devolved Administrations in Scotland, Wales and Northern Ireland. Although details of the new government's approach to regional policy are not yet clear, the commitment to decentralisation of certain elements of economic development looks likely to be maintained, alongside centralisation of other elements (within a framework of reducing the role of the public sector).

In terms of coordination, the 30 Public Service Agreements (PSA) played an important role in aligning interventions under different policy areas and by different government departments to meet the outcomes which have been prioritised. In terms of regional development, the Department for Business, Innovation and Skills (BIS) sponsors the RDAs and was responsible for the Regional Economic Performance (REP) PSA, while the Department for Communities and Local Government (CLG) has policy responsibility for the regeneration initiatives delivered by the RDAs. At regional level, there is coordination between funding from different government departments in that they are all channelled into the Single Pot, and spent according to a regionally-determined strategy, in accordance with central government guidance. There are also a number of formal and informal communication channels amongst the RDAs, and between the RDAs and central government, which serve to increase coordination.

### **Importance of Cohesion policy**

The strategic objectives of Cohesion policy funding for the 2007-13 period closely echo UK regional policy goals, domestic policy in the Devolved Administrations and the English Regional Economic Strategies. Post-devolution, domestic strategies were already strongly aligned with Lisbon themes, and, as such, Lisbon 'earmarking' was considered to present no real challenges in the UK. Declining levels of funding helped ensure the tight strategic focus of Cohesion policy programmes, which are intended to have a catalytic effect in extending and enhancing domestic policy initiatives. Indeed, domestic policy initiatives have been an important source of co-financing for Cohesion policy projects (e.g. the RDA Single Pot).

The UK receives approximately €10.6 billion (at current prices) under the 2007-13 Structural Funds, distributed between three Convergence regions (Highlands and Islands, West Wales and the Valleys and Cornwall and the Isles of Scilly) and a further 13 Competitiveness OPs. Competitiveness funding was allocated according to a formula using a basket of weighted indicators of economic need. All the programmes are regional from a funding perspective and theme-based within the regions (i.e. there are no spatially targeted aspects explicitly, though some of the themes are space-specific). Although there are differences in the individual strategic priorities across programmes, there are common themes, notably innovation and knowledge transfer, enterprise development, entrepreneurship, environmental sustainability and community regeneration.

Management and implementation of Cohesion policy programmes is aligned with domestic regional policy delivery in the UK, for example, through the RDAs in England, and via coordination mechanisms such as the Strategic Frameworks in Wales, and through the selection of delivery bodies which are prominent in domestic policy delivery also (Scottish Enterprise and Highlands and Islands Enterprise in Scotland, InvestNI in Northern Ireland).

There is some evidence that Cohesion policy has had a (limited) impact on the implementation of national policy, although arguably this has mostly taken place in the early programme periods.<sup>6</sup> Until the current period, the systems for management and implementation of domestic regional policy and Cohesion policy were differentiated. The systems were largely seen as distinct and separate and this had an impact on the scope for productive interaction. However, there is some consensus that, over the long history of Cohesion policy implementation in the UK, some of the principles associated with its delivery system have become embedded in the domestic system. For example, principles attached to the design and delivery of programmes may have ‘spilled over’ into domestic regional development interventions through processes of policy learning, diffusion or experimentation. The value of partnership working has become important beyond the confines of the programmes, and may have supported the shift taking place in domestic regional policy towards the more regionalised design of development strategies.

### **Impact of the crisis**

The effects of the crisis on regional development are still emerging. Compared with previous recessions, the current crisis appears to be more broadly based in its regional impact, drawing in the manufacturing areas of the North and Midlands as well as the financial centres of the South East and London. Within this, the impact of the recession is varying in terms of nature and scope and predicted recovery rates. Lower levels of business investment as a result of the crisis led to lower levels of demand for support; in response, amendments were made to aid eligibility criteria to make the support of offer more widely available, including increased availability of support for SMEs outside the designated Assisted Areas.

Much of the current dismantling of the regional policy framework in England is being framed within a context of reducing the UK’s budget deficit. There is a freeze on elements of ‘Single Pot’ spending in England such as the main regional incentive scheme, GBI, with significant implications for ERDF spending under the English programmes. The Scottish Government, the Welsh Assembly Government and the Northern Ireland Executive have published their own economic recovery programmes refocusing priorities to accelerate economic recovery; in Wales, this has included a reallocation of spending under the main regional incentive scheme (SIF) away from direct business support towards infrastructure.

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### **ENDNOTES**

<sup>1</sup> The Treasury, the Department of Trade and Industry and the Office of the Deputy Prime Minister (2003), *A Modern Regional Policy for the United Kingdom*, p.3.

<sup>2</sup> BIS (2010) *Resource Accounts 2009-10*, pp. 208-11.

<sup>3</sup> 'Rebalancing economy poses tough challenge', Financial Times, July 16 2010.

<sup>4</sup> Welsh Assembly Government (2010) *Economic renewal: a new direction*, July 2010. <http://wales.gov.uk/docs/det/report/100705anewdirectionen.pdf>.

<sup>5</sup> A flat rate for RDA administrative overheads; population in a region; GDP per head; research and development expenditure per head; the population of Rural Priority Areas; the number of people living in deprived wards; the unemployment rate; the amount of derelict land and pre-used land with planning permission; and the skills of people of working age.

<sup>6</sup> European Commission, *Ex Post Evaluation of the ERDF in Objectives 1 & 2 (2000-2006)*, Work package 11 [URL: [http://ec.europa.eu/regional\\_policy/sources/docgener/evaluation/expost2006/wp11\\_en.htm](http://ec.europa.eu/regional_policy/sources/docgener/evaluation/expost2006/wp11_en.htm)].

**4.**

## STATISTICAL ANNEX

Figure 1: Basic data

	Population (mn)	Population density (inhabitants per km <sup>2</sup> )			Surface area	GDP (€ mn)	GDP (PPS per head)
	2007	Av	Min (Nuts 2)	Max (Nuts 2)	km <sup>2</sup>	2009	EU27=100 2006-8
Austria	8.315	99.5	21.3	4107.0	83844	276892	123.5
Belgium	10.626	350.4	42.0	6458.7	30528	337758	116.2
Bulgaria	7.660	69.0	36.5	918.8	111002	33877	38.5
Cyprus	0.784	na	na	na	9250	16947	93.3
Czech Rep	10.334	133.8	65.7	2472.9	78867	134531	79.2
Denmark	5.461	126.7	58.7	3624.1	43098	222893	121.9
Estonia	1.342	30.9	14.5	120.6	45288	13730	67.1
Finland	5.289	17.4	2.0	216.8	338436	170971	116.8
France	63.825	100.9	2.6	20837.4	632834	1943436	108.4
Germany	82.111	229.9	39.0	4198.1	357093	2407200	115.9
Greece	11.193	85.6	10.8	1063.3	131957	237494	93.3
Hungary	10.056	108.1	54.1	3235.9	93028	93086	63.5
Ireland	4.357	63.7	30.9	1316.9	69797	163543	143.0
Italy	59.375	201.2	31.4	2653.1	301336	1520870	103.3
Latvia	2.276	36.5	16.2	2812.2	64589	18768	55.0
Lithuania	3.376	53.9	26.1	90.0	65300	26747	58.9
Luxembourg	0.480	182.8	na	na	2586	37755	274.7
Malta	0.409	1281.2	462	1514	316	5712	76.5
Netherlands	16.382	485.3	146.6	3097.5	41543	570208	132.4
Poland	38.121	122.0	na	na	312685	310075	54.3
Portugal	10.608	115.2	15.0	1572.4	92118	163891	76.0
Romania	21.547	93.7	38.9	10504.8	238391	115869	42.4
Slovakia	5.397	110.1	69.3	296.6	49034	63332	67.8
Slovenia	2.018	100.2	36.1	198.8	20273	34894	89.1
Spain	44.879	87.2	8.9	5152.6	505987	1051151	104.1
Sweden	9.148	22.3	2.6	296.9	441370	287883	121.3
UK	60.980	250.8	7.0	10153.5	243069	1566741	117.7

Source: Eurostat



**Figure 2(a): Regional dispersion of GDP at NUTS 2**

	1999	2000	2001	2002	2003	2004	2005	2006
Austria	18.5	18.1	18.4	18.7	18.0	16.8	16.9	16.1
Belgium	25.2	25.3	25.4	25.4	25.0	25.2	25.6	25.5
Bulgaria	21.3	17.4	20.3	23.7	23.7	26.0	26.4	31.0
Czech Rep	22.1	22.7	24.3	24.8	24.9	24.2	25.1	25.4
Denmark	na	na	na	na	na	14.4	16.3	15.7
Finland	17.8	17.6	17.5	16.8	15.4	15.7	15.4	15.5
France	20.7	20.9	20.5	20.6	20.9	19.9	20.3	20.4
Germany	17.5	17.6	17.9	17.9	17.8	17.6	17.3	17.3
Greece	na	20.6	21.8	24.2	24.5	26.2	25.6	26.8
Hungary	32.1	32.6	33.0	35.4	34.2	33.4	35.7	37.6
Italy	24.1	na	24.3	24.2	24.3	24.2	23.8	23.4
Netherlands	10.8	10.9	10.9	11.2	11.0	11.3	11.9	11.7
Poland	17.7	17.6	18.2	18.1	18.3	18.7	19.4	19.5
Portugal	21.3	22.8	22.1	23.0	22.8	23.0	23.3	22.6
Romania	na	23.8	24.7	23.3	23.7	23.0	27.0	27.5
Slovakia	26.0	26.5	27.3	28.3	27.8	28.3	31.7	30.1
Spain	20.5	20.5	20.3	19.8	19.1	18.8	18.4	18.4
Sweden	16.2	15.7	14.8	15.3	14.8	15.6	16.4	15.3
UK	20.1	21.1	21.3	22.0	21.9	22.1	22.4	22.4

**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population. Data is not available for Estonia, Ireland, Latvia, Lithuania, Luxembourg, Malta and Slovenia

**Source:** Eurostat

**Figure 2(b): Regional dispersion of GDP at NUTS 3**

	1999	2000	2001	2002	2003	2004	2005	2006
Austria	26.3	26.3	26.4	26.4	25.9	25.0	24.8	24.1
Belgium	28.2	27.6	27.5	27.5	27.0	28.1	28.2	28.3
Bulgaria	53.0	48.1	49.9	51.5	56.6	58.8	32.6	36.7
Czech Rep	22.1	22.8	24.4	24.7	24.9	24.3	25.1	25.3
Denmark	na	na	na	na	na	17.8	19.1	18.6
Estonia	35.1	36.9	37.9	38.4	40.1	41.8	39.2	44.7
Finland	21.7	21.7	22.1	20.7	19.2	19.0	19.3	19.6
France	23.2	23.9	23.8	23.4	23.7	22.7	23.3	23.4
Germany	28.7	28.7	28.9	28.6	28.9	28.7	28.6	29.2
Greece	na	22.8	23.9	25.8	25.9	27.9	27.3	28.6
Hungary	37.6	na	36.7	38.9	37.2	37.2	40.0	42.4
Ireland	24.7	26.3	27.3	29.4	29.9	28.6	29.8	30.9
Italy	24.3	na	26.0	25.6	25.5	25.5	24.8	24.6
Latvia	46.0	46.9	45.2	51.9	49.0	52.8	51.4	46.8
Lithuania	17.2	20.8	21.8	24.5	24.2	23.5	25.1	27.6
Malta	na	3.4	3.3	3.4	4.2	4.2	4.2	3.3
Netherlands	15.5	15.7	15.7	16.1	16.4	16.7	17.6	18.5
Poland	na	17.2	16.2	17.3	17.4	31.3	32.3	34.4
Portugal	26.2	27.3	27.0	26.9	27.3	27.6	28.1	27.1
Romania	24.4	28.7	29.0	30.0	29.3	29.2	33.7	34.4
Slovakia	27.2	27.7	27.4	28.1	28.7	29.2	33.6	34.5
Slovenia	19.6	19.5	20.2	20.3	22.2	21.9	21.8	22.4
Spain	20.6	20.5	20.2	20.4	19.8	19.4	19.1	19.0
Sweden	16.2	15.8	14.9	15.3	14.8	15.6	16.3	15.3
UK	26.0	27.3	27.2	27.6	27.6	27.3	27.4	27.9

**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population. Data is not available for Cyprus and Luxembourg

**Source:** Eurostat

**Figure 2(c): Regional dispersion of unemployment at NUTS 2**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Austria	28.5	33.4	35.8	42.8	42.3	40.6	39.6	44.2	45.0
Belgium	51.7	51.9	53.7	48.3	43.5	48.1	48.4	55.1	59.2
Bulgaria	na	na	na	na	22.0	21.6	20.8	26.3	39.1
Czech Rep	33.1	38.5	38.9	43.6	41.9	41.6	45.8	44.6	41.9
Finland	23.8	25.1	29.4	28.1	22.0	21.3	21.9	23.9	25.8
France	24.1	27.8	41.8	37.4	37.1	35.8	34.8	35.3	35.2
Germany	42.0	54.2	61.1	54.7	45.8	44.6	39.6	39.2	43.5
Greece	13.4	15.2	16.5	14.7	15.9	18.4	18.3	14.0	15.2
Hungary	34.8	32.3	29.9	32.1	32.6	27.6	26.9	31.8	39.4
Italy	68.9	74.4	78.3	77.5	78.0	61.8	59.9	57.1	56.7
Netherlands	30.7	17.0	19.5	16.1	10.7	12.2	15.1	14.8	16.9
Poland	22.5	18.9	17.9	16.5	15.8	15.9	14.6	12.1	14.2
Portugal	31.0	30.5	29.3	30.7	29.6	25.1	22.3	21.0	20.3
Romania	13.0	11.3	13.9	14.6	13.9	17.6	17.3	22.7	27.7
Slovakia	27.4	27.0	24.3	22.9	26.7	30.8	36.7	37.8	38.0
Spain	35.9	39.2	37.6	36.9	32.3	31.7	30.2	29.1	30.6
Sweden	29.6	30.4	23.9	17.3	15.8	13.0	12.5	11.9	10.1
UK	33.9	34.1	32.7	29.7	30.5	31.5	26.4	25.8	24.8

**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population. Data is not available for Cyprus, Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Malta and Slovenia.

**Source:** Eurostat

**Figure 2(d): Regional dispersion of unemployment at NUTS3 level, for all EU27**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Austria	30.9	36.0	39.3	44.0	43.3	41.8	40.8	45.2	46.1
Belgium	53.9	54.1	56.3	50.8	45.9	50.4	50.5	57.2	na
Bulgaria	na	na	na	na	33.7	39.6	47.0	46.6	64.5
Czech Rep	41.6	47.0	47.7	51.5	44.6	43.8	46.5	46.1	42.7
Estonia	35.9	35.9	33.1	37.1	27.7	32.8	33.8	37.0	41.2
Finland	32.4	33.1	36.2	35.8	30.4	28.5	31.6	32.3	32.3
France	28.1	31.8	44.3	39.8	39.3	37.8	36.8	37.4	37.4
Germany	na	na	64.1	57.9	49.5	48.6	44.6	44.3	49.8
Greece	25.7	25.2	25.7	28.9	30.8	28.9	29.9	26.7	26.6
Hungary	36.8	35.6	34.2	35.9	36.7	31.9	29.9	35.8	44.8
Ireland	25.4	21.0	22.7	18.9	16.6	16.1	16.6	14.4	na
Italy	74.1	79.6	83.9	82.7	83.5	66.6	63.3	61.6	61.0
Latvia	21.7	19.4	24.4	20.1	20.5	10.6	23.4	27.2	16.2
Lithuania	11.8	10.7	10.4	11.5	17.0	15.5	20.7	19.7	20.3
Netherlands	39.7	32.4	34.3	27.2	21.6	20.4	24.5	23.9	29.1
Poland	37.8	39.5	36.8	29.1	28.0	25.8	25.4	23.6	na
Portugal	36.7	35.9	35.4	35.7	34.9	32.7	30.3	28.5	27.1
Romania	34.3	36.8	35.2	38.4	37.1	41.5	42.5	47.3	52.4
Slovakia	31.0	28.9	27.8	30.7	35.5	37.1	42.3	43.4	46.1
Spain	39.2	42.1	43.6	42.4	37.2	37.3	33.8	31.7	33.0
Sweden	31.9	33.2	26.2	19.8	18.4	15.3	14.9	14.2	12.6
UK	42.6	41.7	39.6	36.9	37.6	39.0	34.1	32.5	32.4

**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population. Data is not available for Cyprus, Denmark, Luxembourg, Malta and Slovenia

**Source:** Eurostat

**Figure 2(e): Regional dispersion of employment at NUTS 2**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Austria	2.3	2.5	2.6	2.5	3.0	3.5	4.1	3.4	3.8
Belgium	8.0	7.9	8.0	8.0	7.7	8.7	8.4	8.7	8.6
Bulgaria	na	na	na	na	6.6	6.9	7.2	7.3	7.1
Czech Rep	5.6	5.8	5.7	5.6	5.8	5.6	5.5	5.2	4.6
Finland	6.7	6.8	7.0	6.7	6.1	5.5	5.5	5.4	5.6
France	7.1	6.9	8.3	8.0	7.2	7.1	7.2	7.4	6.6
Germany	5.4	5.4	5.8	5.7	5.9	6.0	5.6	5.2	4.8
Greece	5.2	5.1	4.3	3.8	3.2	4.1	4.3	3.7	3.5
Hungary	9.1	9.0	8.8	9.4	8.5	9.4	9.9	9.1	9.7
Italy	17.4	17.5	17.1	16.7	17.0	15.6	16.0	16.0	16.3
Netherlands	2.3	2.2	2.3	2.2	2.3	2.3	2.0	2.2	2.2
Poland	4.8	6.9	7.2	7.3	7.2	6.4	5.6	5.1	4.5
Portugal	3.6	4.3	3.5	3.8	3.9	3.5	3.3	3.1	3.3
Romania	4.2	4.6	5.6	3.2	3.5	4.9	4.5	3.6	4.6
Slovakia	8.1	9.1	8.3	7.3	7.6	9.0	9.8	8.6	8.3
Spain	10.8	10.7	10.0	9.3	9.0	8.7	8.3	7.8	7.5
Sweden	4.8	4.5	4.2	4.6	4.3	4.4	3.0	2.9	2.4
UK	7.5	7.1	6.8	6.6	6.1	5.9	5.7	5.5	5.4

**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population. Data is not available for Cyprus, Denmark, Estonia, Ireland, Latvia, Lithuania, Luxembourg, Malta and Slovenia

**Source:** Eurostat

**Figure 2(f): Regional dispersion of employment at NUTS 3**

	1999	2000	2001	2002	2003	2004	2005	2006
Austria	3.6	3.9	4.0	3.8	4.4	4.5	4.8	4.7
Belgium	8.1	7.9	8.1	8.1	7.8	8.8	8.5	na
Bulgaria	na	na	Na	na	9.3	9.3	9.8	9.8
Czech Rep	6.4	6.9	6.4	6.3	6.5	6.2	6.1	5.4
Estonia	6.9	7.1	6.9	8.2	7.1	5.6	7.7	7.4
Finland	8.6	8.8	8.8	8.5	7.6	7.4	7.4	na
France	17.4	17.2	17.5	17.2	16.3	na	na	na
Germany	7.3	8.2	8.6	8.4	8.8	9.0	9.0	8.7
Greece	8.2	7.6	6.7	7.3	6.6	5.8	6.0	na
Hungary	10.0	9.9	9.6	9.9	9.4	10.4	10.5	9.7
Ireland	4.9	4.8	4.5	3.9	3.2	2.3	2.6	2.2
Italy	18.8	18.9	18.6	18.2	18.5	16.8	17.3	23.7
Latvia	6.9	7.8	6.9	7.0	8.7	8.6	7.9	6.1
Lithuania	3.2	3.5	3.0	3.4	4.3	3.9	3.3	4.7
Netherlands	4.2	3.9	3.4	3.9	3.8	3.7	3.6	3.9
Poland	11.2	11.7	12.0	11.1	10.1	9.4	8.5	na
Portugal	7.3	7.7	7.6	7.2	6.6	7.2	7.5	na
Romania	8.4	9.0	10.0	9.8	12.0	13.6	15.1	14.6
Slovakia	9.1	9.7	9.2	9.2	9.3	10.1	10.9	9.6
Spain	11.9	11.5	10.9	10.3	9.9	9.7	9.1	8.5
Sweden	5.2	4.8	4.5	5.0	4.6	5.1	3.4	3.3
UK	8.7	8.4	8.0	8.0	7.4	7.0	6.7	na

**Note:** Dispersion indicators are comparable between countries and show the average difference between regional values and the national average, weighted by population. Data is not available for Cyprus, Denmark, Luxembourg, Malta and Slovenia.

**Source:** Eurostat

**Figure 3(a): GDP (PPS) per head at NUTS2 level**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Austria</b>	23400	25000	24700	25800	26300	27400	28000	29400	30600
Min	15000	16100	16100	17400	17800	18800	18800	19600	20300
Max	33300	35300	35100	36900	37000	37700	37900	39500	40600
<b>Belgium</b>	21900	24000	24500	25700	25600	26200	26900	27800	28800
Min	14500	15900	16100	16700	16900	17200	17700	18200	18700
Max	44600	48800	49800	52300	51400	52000	53300	54000	55000
<b>Bulgaria</b>	4800	5300	5800	6300	6700	7300	7800	8600	9400
Min	3600	4000	4400	4700	5200	5600	5900	6000	6400
Max	6500	6900	8000	9200	9700	10700	11500	13500	15400
<b>Cyprus</b>	15600	16900	18000	18300	18400	19600	20400	21400	23300
<b>Czech Rep</b>	12400	13000	13900	14400	15200	16300	17100	18200	19900
Min	9900	10200	10800	11100	11800	12900	13300	14100	15400
Max	24200	26000	28700	30200	31900	33400	35600	38300	42800
<b>Denmark</b>	23300	25100	25300	26300	25700	27200	27800	29400	30200
Min	na	18600	na	na	na	na	21100	22300	22800
Max	na	31300	na	na	na	na	35300	36600	37400
<b>Estonia</b>	7600	8600	9200	10200	11300	12400	13800	15400	17100
<b>Finland</b>	20500	22300	22900	23600	23400	25200	25700	27200	29400
Min	14900	16000	16500	17000	17300	18500	19100	20200	22100
Max	28100	28000	31200	31300	30800	32600	33000	34700	35700
<b>France</b>	20400	22000	22900	23700	23200	23800	24900	25700	27000
Min (ex. DOM)	15600	16500	17400	17800	17400	18000	19100	20100	21100
Max	31900	34400	35600	37200	36300	36700	38600	39600	42000
<b>Germany</b>	21800	22600	23100	23600	24200	25200	26300	27500	28800
Min	14000	14500	15100	15500	15900	16400	17000	17900	19000
Max	36800	38200	39900	40800	41400	42900	45100	46300	47800
<b>Greece</b>	14700	16000	17100	18500	19200	20400	20600	22000	23100
Min	11400	11100	11800	12500	13000	13200	13600	14500	14900
Max	20400	20200	22000	24600	25900	27800	28100	29500	31900
<b>Hungary</b>	9700	10500	11600	12600	13000	13700	14200	15000	15600
Min	6400	6800	7500	8000	8400	9000	9000	9400	9800
Max	14500	16100	18500	20600	20700	21900	23200	24900	25600
<b>Ireland</b>	22400	24900	26200	28200	29200	30800	32400	34400	36900
Min	15600	17000	17700	18500	19400	21300	22100	23700	24700
Max	24800	27800	29200	31800	32800	34200	36100	38300	41400
<b>Italy</b>	20900	22300	23300	22900	22900	23100	23600	24600	25800
Min	13000	13700	14600	14300	14500	14500	15100	15700	16400
Max	28000	29600	31000	30600	30600	30400	31000	32200	33600
<b>Latvia</b>	6400	7000	7700	8400	9000	9900	10900	12200	13900
<b>Lithuania</b>	6900	7500	8200	9000	10200	10900	11900	13100	14800

Contd...

Figure 3(a): GDP (PPS) per head at NUTS2 level, contd...

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Luxembourg</b>	42300	46400	46300	49200	51300	54700	57200	64400	68500
<b>Malta</b>	14400	15900	15400	16300	16200	16700	17500	18200	19000
<b>Netherlands</b>	23300	25600	26400	27300	26800	28000	29400	31000	32900
Min	17200	18500	19400	19800	20000	20700	21600	23900	25800
Max	29600	32100	33700	34000	32800	34000	36100	41100	41100
<b>Poland</b>	8600	9200	9400	9900	10100	11000	11500	12300	13600
Min	6100	6400	6600	6900	7200	7600	7900	8300	9100
Max	13200	13900	14700	15300	15800	16700	18300	19600	21700
<b>Portugal</b>	13900	14900	15300	15800	15900	16100	17300	18100	18800
Min	11000	12000	12600	12800	12700	12800	13700	14300	15000
Max	19700	21100	21600	22200	22400	22800	22400	25200	26100
<b>Romania</b>	4700	5000	5500	6000	6500	7400	7900	9100	10400
Min	3400	3400	4000	4400	4700	5100	5200	5800	6600
Max	8700	10800	11200	12100	13000	14800	17300	19800	23000
<b>Slovakia</b>	9000	9500	10400	11100	11500	12300	13500	15000	16900
Min	6800	7200	7900	8400	8600	9100	9700	10400	11500
Max	19200	20700	22800	25000	25800	27900	32900	34900	39900
<b>Slovenia</b>	14400	15200	15800	16800	17300	18700	19700	20700	22100
Min	12100	12800	13200	14100	14200	15500	16300	17100	18200
Max	17100	18000	18800	20100	20900	22500	23600	25000	26600
<b>Spain</b>	17200	18500	19400	20600	20900	21900	22900	24700	26200
Min	10900	11800	12400	13300	13700	14500	15600	16800	18000
Max	23200	25200	26200	27400	27600	28700	29900	32300	34100
<b>Sweden</b>	22300	24100	24000	24800	25400	27000	27100	28600	30600
Min	19000	20700	20600	21400	21900	23100	23100	24700	26500
Max	31300	33500	32700	34000	34500	37200	37600	38900	41000
<b>UK</b>	21000	22700	23700	24700	25200	26800	27400	28400	29100
Min	12100	13200	14200	15500	15900	16800	17100	18200	18300
Max	54400	61000	62500	66400	68600	72800	76000	80200	83200

Source: Eurostat



Figure 3(b): GDP(PPS) per head at NUTS 3

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Austria</b>	23400	25000	24700	25800	26300	27400	28000	29400	30600
Min	12600	12900	13200	13200	13500	14300	13800	14500	15500
Max	33300	35300	35100	36900	37000	37700	37900	39500	40600
<b>Belgium</b>	21900	24000	24500	25700	25600	26200	26900	27800	28800
Min	9400	10300	10600	11000	10700	11000	11300	11800	12100
Max	44600	48800	49800	52300	51400	52000	53300	54000	55000
<b>Bulgaria</b>	4800	5300	5800	6300	6700	7300	7800	8600	9400
Min	2800	3300	3600	4000	4500	4800	4700	5000	5100
Max	8400	8700	10600	12300	12600	13900	15200	17900	21200
<b>Cyprus</b>	15600	16900	18000	18300	18400	19600	20400	21400	23300
<b>Czech Rep</b>	12400	13000	13900	14400	15200	16300	17100	18200	19900
Min	9900	10200	10800	11100	11800	12600	12900	13100	14200
Max	24200	26000	28700	30200	31900	33400	35600	38300	42800
<b>Denmark</b>	23300	25100	25300	26300	25700	27200	27800	29400	30200
Min	na	na	na	na	na	na	20200	21500	22500
Max	na	na	na	na	na	na	41100	42200	42600
<b>Estonia</b>	7600	8600	9200	10200	11300	12400	13800	15400	17100
Min	5200	5800	6000	6500	6900	7500	8700	9100	10300
Max	11000	12700	13600	15400	17400	19200	20900	24000	26300
<b>Finland</b>	20500	22300	22900	23600	23400	25200	25700	27200	29400
Min	13900	14400	15600	16100	16100	17400	17100	19000	20900
Max	28900	31800	32600	33000	32000	34300	35100	37500	40300
<b>France</b>	20400	22000	22900	23700	23200	23800	24900	25700	27000
Min (ex DOM)	13600	14400	15000	15700	15500	15900	16800	17500	12800
Max	58600	62900	65800	67600	65400	64900	68500	69000	75300
<b>Germany</b>	21800	22600	23100	23600	24200	25200	26300	27500	28800
Min	10000	10400	10400	10700	10800	11100	11700	12100	12700
Max	60800	70100	73100	72700	75300	76500	81800	80000	82400
<b>Greece</b>	14700	16000	17100	18500	19200	20400	20600	22000	23100
Min	9300	8900	9200	9400	10000	10500	10800	11300	12100
Max	36700	32300	32900	31500	30500	31000	30500	32500	33200
<b>Hungary</b>	9700	10500	11600	12600	13000	13700	14200	15000	15600
Min	5400	5800	6500	6900	7200	7300	7200	7400	7200
Max	18300	20800	23600	26700	26700	28400	30400	33100	33900
<b>Ireland</b>	22400	24900	26200	28200	29200	30800	32400	34400	36900
Min	13500	15700	17000	17100	18300	19900	21100	22500	23500
Max	30600	33900	35500	38400	41000	44000	47000	49500	53900
<b>Italy</b>	20900	22300	23300	22900	22900	23100	23600	24600	25800

Contd...

Figure 3(b): GDP(PPS) per Head at NUTS 3, contd...

	1999	2000	2001	2002	2003	2004	2005	2006	2007
Min	9600	10500	11500	11000	11100	11100	11900	12800	14000
Max	33000	35100	36900	36000	36000	36200	36400	36900	37900
<b>Latvia</b>	6400	7000	7700	8400	9000	9900	10900	12200	13900
Min	3200	3400	4300	4100	4600	4600	5300	5900	7400
Max	11000	12100	13100	15300	15900	18100	19800	21200	23900
<b>Lithuania</b>	6900	7500	8200	9000	10200	10900	11900	13100	14800
Min	4100	4400	4800	5000	5300	5500	5700	6100	6600
Max	9300	10300	11500	13300	14900	16000	17600	20100	23100
<b>Luxembourg</b>	42300	46400	46300	49200	51300	54700	57200	64400	68500
<b>Malta</b>	14400	15900	15400	16300	16200	16700	17500	18200	19000
Min	na	12400	12400	12800	12300	12400	13000	13000	14800
Max	na	16200	15700	16600	16600	17000	17900	18600	19400
<b>Netherlands</b>	23300	25600	26400	27300	26800	28000	29400	31000	32900
Min	14800	16000	15800	16200	16000	16100	16900	17500	18500
Max	35700	38600	39400	43100	42200	44800	46800	52200	51400
<b>Poland</b>	8600	9200	9400	9900	10100	11000	11500	12300	13600
Min	5000	5200	5300	5700	5800	6200	6600	7000	7700
Max	25400	26100	26900	28900	30200	31100	34500	37100	41400
<b>Portugal</b>	13900	14900	15300	15800	15900	16100	17300	18100	18800
Min	7400	7900	8200	8800	8800	8800	9600	10400	11000
Max	22300	24400	25000	25900	26300	26900	28900	29600	30600
<b>Romania</b>	4700	5000	5500	6000	6500	7400	7900	9100	10400
Min	2500	2400	2900	3000	3500	3700	3600	4200	4500
Max	9100	11300	11700	12600	13500	15200	17900	20200	23700
<b>Slovakia</b>	9000	9500	10400	11100	11500	12300	13500	15000	16900
Min	5500	5800	6300	6900	7000	7400	8000	8200	9200
Max	19200	20700	22800	25000	25800	27900	32900	34900	39900
<b>Slovenia</b>	14400	15200	15800	16800	17300	18700	19700	20700	22100
Min	10100	10600	11000	11600	11800	12700	13100	13600	14400
Max	19900	21000	22000	23600	24900	26800	28200	29900	31700
<b>Spain</b>	17200	18500	19400	20600	20900	21900	22900	24700	26200
Min	10900	11500	11900	13100	13700	14200	14700	15800	17000
Max	24700	25600	28000	28700	28900	30200	32000	35300	37900
<b>Sweden</b>	22300	24100	24000	24800	25400	27000	27100	28600	30600
Min	17100	18800	18800	19700	19900	21600	21600	22800	24400
Max	31300	33500	32700	34000	34500	32700	37600	38900	41000
<b>UK</b>	21000	22700	23700	24700	25200	26800	27400	28400	29100
Min	11100	11300	13600	13400	13900	14900	15400	15600	16100
Max	96900	114500	112700	119600	121700	126400	132700	144000	147100

Source: Eurostat

**Figure 3(c): Employment rates at NUTS 2**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Austria</b>	56.6	56.4	56.5	56.6	56.9	55.7	56.3	57.3	58.3
Min	52.7	52.3	52.4	53.3	53.1	52.8	52.8	53.3	54.9
Max	60.4	60.7	60.7	60.6	60.7	59.8	61.2	60.6	62.2
<b>Belgium</b>	47.7	48.5	48.0	47.9	47.6	48.1	48.8	48.7	49.6
Min	40.7	42.7	41.6	41.3	41.8	41.2	42.4	41.8	43.2
Max	53.0	53.9	53.1	53.1	52.2	53.3	54.2	53.1	54.0
<b>Bulgaria</b>	na	na	na	na	42.5	43.8	44.7	46.7	49.0
Min	na	na	na	na	36.7	37.4	37.5	39.6	42.3
Max	na	na	na	na	47.3	48.9	50.0	52.7	55.4
<b>Cyprus</b>	55.5	57.3	59.2	59.8	60.6	60.3	59.8	60.7	61.9
<b>Czech Rep</b>	55.4	54.8	54.9	55.2	54.6	54.2	54.7	55.0	55.6
Min	51.1	49.9	49.9	50.6	49.3	49.1	50.3	50.5	51.8
Max	60.6	59.9	60.0	60.2	59.8	58.9	59.9	60.3	60.3
<b>Denmark</b>	62.3	62.5	62.9	62.5	62.0	62.4	62.5	63.4	63.3
Min	na	na	na	na	na	na	na	na	60.7
Max	na	na	na	na	na	na	na	na	65.0
<b>Estonia</b>	51.8	50.7	51.1	52.2	52.8	53.0	53.9	56.8	57.6
<b>Finland</b>	55.8	55.4	55.9	55.8	55.4	55.2	55.7	56.3	57.0
Min	48.2	47.5	47.2	47.5	47.7	47.3	48.2	48.9	48.4
Max	62.0	65.6	64.0	62.9	59.4	59.0	59.3	60.2	60.6
<b>France</b>	na	na	50.4	50.6	51.4	51.2	51.3	51.3	51.9
Min (ex DOM)	32.3	27.4	28.7	29.8	39.9	39.3	41.8	43.8	42.1
Max	55.5	56.8	57.1	56.9	55.9	56.0	56.2	55.6	56.9
<b>Germany</b>	52.7	52.9	53.0	52.4	51.7	50.8	52.3	53.2	54.3
Min	na	na	na	na	na	45.5	45.8	47.6	49.9
Max	na	na	na	na	na	57.5	59.1	59.4	60.3
<b>Greece</b>	46.0	46.3	45.9	46.6	47.4	47.6	48.0	48.6	49.0
Min	39.7	40.2	40.5	40.0	40.3	41.7	40.2	42.4	42.7
Max	54.6	54.4	53.5	51.8	52.9	52.6	53.2	53.4	53.7
<b>Hungary</b>	46.0	46.6	46.2	46.2	46.8	46.6	46.6	46.8	46.8
Min	39.6	40.7	40.7	40.9	41.7	41.2	40.2	40.8	41.1
Max	51.9	52.3	51.7	52.3	51.8	51.6	51.7	51.4	51.4
<b>Ireland</b>	54.6	56.9	57.6	57.4	57.4	58.0	59.3	60.2	60.8
Min	51.2	53.3	54.4	54.4	55.0	56.5	57.4	58.2	59.1
Max	55.8	58.2	58.7	58.4	58.2	58.6	60.0	61.0	61.4
<b>Italy</b>	42.6	43.2	43.9	44.4	44.9	45.5	45.3	45.8	45.9
Min	31.7	32.3	33.3	34.1	34.0	34.8	35.3	35.9	35.4
Max	56.2	57.0	57.7	58.5	58.8	57.5	57.2	57.5	57.3
<b>Latvia</b>	49.8	48.2	49.3	50.5	51.4	51.9	52.6	55.3	56.9

Contd...

**Figure 3(c): Employment rates at NUTS 2, contd...**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Lithuania</b>	53.0	50.7	49.1	50.1	50.9	50.7	51.9	52.7	53.9
<b>Luxembourg</b>	51.1	52.2	52.8	53.3	52.2	52.2	53.1	52.4	53.7
<b>Malta</b>	na	46.5	46.8	46.4	46.2	46.0	45.9	45.0	45.8
<b>Netherlands</b>	60.2	61.8	62.8	63.1	62.3	61.9	61.9	62.8	64.0
Min	54.8	57.6	58.2	59.5	57.9	57.6	58.0	58.3	59.2
Max	64.5	68.2	67.7	67.5	68.0	66.7	65.9	68.2	69.1
<b>Poland</b>	49.6	47.5	46.1	44.4	44.0	44.3	45.2	49.6	48.5
Min	45.3	42.1	41.5	39.5	39.2	40.2	41.6	45.1	43.6
Max	52.6	51.0	50.4	49.0	48.2	47.7	48.6	53.5	51.9
<b>Portugal</b>	57.8	58.6	59.1	58.9	58.2	57.8	57.5	57.7	57.6
Min	48.5	48.8	49.2	50.8	51.0	51.6	51.7	52.2	51.9
Max	62.2	64.1	63.7	64.5	64.1	63.2	62.5	63.0	63.3
<b>Romania</b>	58.8	58.5	57.9	52.1	50.8	50.3	51.0	51.0	51.3
Min	52.8	51.1	48.0	47.8	47.3	46.0	na	na	47.2
Max	65.9	65.9	66.4	57.5	55.2	56.0	na	na	55.4
<b>Slovakia</b>	50.0	48.8	48.8	48.8	49.7	49.2	49.8	51.2	52.3
Min	46.7	45.3	45.3	46.1	46.6	44.9	44.7	46.6	48.2
Max	60.7	60.5	59.2	58.1	59.3	58.9	60.5	60.6	61.7
<b>Slovenia</b>	53.2	53.8	54.4	53.8	52.8	55.2	55.4	55.8	56.8
Min	na	na	na	na	na	na	54.3	54.7	56.2
Max	na	na	na	na	na	na	56.7	57.0	57.5
<b>Spain</b>	43.8	45.6	46.8	47.4	48.5	49.6	51.5	52.7	53.4
Min	36.2	37.3	38.5	39.2	40.7	41.2	42.8	41.0	40.3
Max	51.9	54.6	54.6	55.5	55.9	56.6	57.4	59.2	59.2
<b>Sweden</b>	64.0	65.1	66.7	66.4	65.8	65.0	65.1	65.9	66.8
Min	56.8	60.2	61.3	59.7	58.3	57.4	na	na	64.6
Max	69.9	72.1	73.3	73.6	72.7	71.9	na	na	69.9
<b>UK</b>	57.9	58.6	58.7	58.7	58.9	59.0	59.3	59.3	59.2
Min	47.4	49.5	50.2	50.5	50.2	52.9	52.8	52.5	51.4
Max	67.2	68.8	67.9	67.8	68.0	66.4	66.6	68.0	66.5

Source: Eurostat

**Figure 3(d): Unemployment rates at NUTS 2**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Austria</b>	3.7	3.5	3.6	4.0	4.3	4.9	5.2	4.7	4.4
Min	2.5	2.3	1.9	2.0	2.2	3.3	3.2	2.9	2.8
Max	5.7	5.8	5.9	7.2	7.8	8.9	9.1	8.8	8.3
<b>Belgium</b>	8.6	7.0	6.6	7.5	8.2	8.4	8.4	8.2	7.5
Min	4.4	3.6	3.6	3.8	4.2	4.5	4.4	4.2	3.0
Max	16.1	13.9	12.9	14.5	15.6	15.7	16.3	17.6	17.1
<b>Bulgaria</b>	na	na	na	na	13.7	12.0	10.1	9.0	6.9
Min	na	na	na	na	11.0	9.4	7.6	6.5	3.9
Max	na	na	na	na	20.3	18.2	12.6	15.3	11.4
<b>Cyprus</b>	na	5.0	4.0	3.3	4.1	4.3	5.3	4.5	3.9
<b>Czech Rep</b>	8.8	8.8	8.2	7.3	7.8	8.3	7.9	7.1	5.3
Min	4.0	4.2	3.9	3.6	4.2	3.9	3.5	2.8	2.4
Max	13.5	14.5	14.4	13.4	14.8	14.6	13.9	12.8	9.5
<b>Denmark</b>	5.6	4.6	4.6	4.6	5.4	5.5	4.8	3.9	3.8
Min	na	na	na	na	na	na	na	na	3.3
Max	na	na	na	na	na	na	na	na	4.3
<b>Estonia</b>	11.6	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7
<b>Finland</b>	10.2	9.8	9.1	9.1	9.0	8.8	8.4	7.7	6.9
Min	8.1	7.7	7.0	7.1	7.5	7.3	6.9	6.3	5.7
Max	14.1	14.1	14.0	13.4	12.3	12.5	11.7	11.3	11.0
<b>France</b>	12.0	10.2	9.1	9.2	8.9	9.3	9.3	9.3	8.3
Min (exc DOM)	7.5	6.5	4.2	5.4	5.4	4.8	4.8	5.8	5.6
Max	26.0	22.2	31.5	29.3	31.6	32.8	30.1	28.5	25.2
<b>Germany</b>	8.9	7.9	7.8	8.5	9.8	10.7	11.1	10.2	8.6
<b>Greece</b>	12.1	11.4	10.8	10.3	9.7	10.5	9.8	8.9	8.3
Min	8.2	7.3	6.8	8.2	7.4	7.7	7.1	7.0	5.3
Max	16.8	13.8	16.7	16.4	14.2	12.9	16.2	10.7	12.7
<b>Hungary</b>	7.0	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4
Min	4.4	3.8	3.3	3.6	4.0	4.5	5.1	5.1	4.6
Max	11.6	10.1	8.5	8.9	9.7	9.7	10.6	11.0	12.3
<b>Ireland</b>	5.8	4.3	3.9	4.4	4.7	4.5	4.3	4.4	4.6
Min	4.9	4.0	3.6	4.1	4.5	4.5	4.3	4.3	4.5
Max	6.9	5.5	4.9	5.4	5.3	4.7	4.4	4.6	4.8
<b>Italy</b>	11.4	10.6	9.5	9.0	8.6	8.0	7.7	6.8	6.1
Min	2.5	2.1	1.9	1.9	2.0	2.7	2.8	2.6	2.6
Max	32.0	30.3	25.7	24.6	23.4	21.6	19.4	16.7	16.3
<b>Latvia</b>	13.8	14.2	13.1	12.1	10.5	10.4	8.9	6.8	6.0
<b>Lithuania</b>	13.4	15.9	16.8	13.7	12.4	11.4	8.3	5.6	4.3

Contd...

**Figure 3(c): Unemployment rate at NUTS2, contd...**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Luxembourg</b>	2.4	2.3	1.8	2.6	3.7	5.1	4.5	4.7	4.1
<b>Malta</b>	na	6.3	7.1	6.9	7.6	7.2	7.3	7.3	6.4
<b>Netherlands</b>	3.6	2.9	2.3	2.8	3.7	4.5	4.7	3.9	3.2
Min	2.6	2.4	1.6	2.2	2.4	3.4	3.3	2.7	2.1
Max	8.4	4.5	3.8	4.2	4.9	6.4	6.6	5.2	4.9
<b>Poland</b>	12.3	16.1	18.2	19.9	19.6	18.9	17.7	13.9	9.6
Min	9.3	11.7	13.0	16.2	16.0	14.6	14.3	11.3	8.1
Max	19.6	23.6	24.3	26.3	26.0	24.9	22.8	17.3	12.7
<b>Portugal</b>	4.5	4.0	4.0	5.0	6.3	6.6	7.6	7.7	8.0
Min	na	na	na	na	na	na	4.5	5.4	4.3
Max	na	na	na	na	na	na	9.1	9.2	9.4
<b>Romania</b>	6.9	7.2	6.6	8.4	7.0	8.1	7.2	7.3	6.4
Min	4.6	4.7	4.6	5.5	4.1	4.0	na	na	3.5
Max	9.3	9.9	8.6	10.6	8.9	13.4	na	na	15.8
<b>Slovakia</b>	16.4	18.8	19.3	18.7	17.5	18.2	16.3	13.4	11.1
Min	7.4	7.3	8.3	8.7	7.1	8.3	5.3	4.6	4.3
Max	21.3	24.0	23.9	22.2	21.8	24.2	23.1	19.1	15.3
<b>Slovenia</b>	7.4	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.8
Min	na	na	na	na	na	na	5.2	4.6	3.9
Max	na	na	na	na	na	na	7.6	7.1	5.6
<b>Spain</b>	15.7	13.9	10.5	11.5	11.5	11.0	9.2	8.5	8.3
Min	8.1	5.6	4.5	5.7	5.7	5.5	5.6	5.3	4.8
Max	27.2	24.6	18.7	19.7	18.8	18.2	19.7	21.0	20.3
<b>Sweden</b>	7.6	5.4	4.8	5.1	5.7	6.5	7.5	7.1	6.2
Min	3.9	3.2	3.3	3.9	4.4	5.2	na	na	5.1
Max	11.5	9.0	6.7	6.3	7.3	7.9	na	na	7.1
<b>UK</b>	6.0	5.6	5.0	5.1	5.0	4.7	4.8	5.4	5.3
Min	2.5	2.4	2.7	3.4	2.7	2.4	2.6	2.6	3.3
Max	10.3	9.4	8.5	9.1	9.0	8.9	7.8	8.7	8.1

Source: Eurostat

**Figure 3(d): Unemployment rates at NUTS 3**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Bulgaria</b>	na	na	na	na	13.7	12.0	10.1	9.0	6.9
Min	na	na	na	na	8.0	4.0	5.4	3.6	2.3
Max	na	na	na	na	30.1	24.7	22.6	21.7	23.5
<b>Czech Rep</b>	8.8	8.8	8.2	7.3	7.8	8.3	7.9	7.1	5.3
Min	4.0	4.2	3.9	3.6	4.2	3.9	3.5	2.8	2.4
Max	15.4	16.2	14.4	13.4	14.8	14.6	14.5	13.7	10.0
<b>Denmark</b>	5.6	4.6	4.6	4.6	5.4	5.5	4.8	3.9	3.8
Min	na	na	na	na	na	na	na	na	2.6
Max	na	na	na	na	na	na	na	na	5.8
<b>Estonia</b>	11.6	13.6	12.6	10.3	10.0	9.7	7.9	5.9	4.7
Min	8.6	10.5	9.8	7.7	8.4	7.4	5.7	4.0	3.4
Max	21.7	25.7	22.6	19.6	17.4	17.9	14.6	11.4	9.7
<b>France</b>	12.0	10.2	9.1	9.2	8.9	9.3	9.3	9.3	8.3
Min (inc.DOM)	6.6	5.2	4.2	4.7	5.0	4.2	4.3	5.3	4.5
Min (exc.DOM)	6.6	5.2	4.2	4.7	5.0	4.2	4.3	5.3	4.5
Max	26.7	23.1	31.5	29.3	31.6	32.8	30.1	28.5	25.2
<b>Hungary</b>	7.0	6.4	5.7	5.8	5.9	6.1	7.2	7.5	7.4
Min	3.8	3.8	3.3	3.6	3.3	3.8	4.3	4.3	3.6
Max	13.1	11.7	9.7	10.6	11.3	10.9	12.0	13.7	14.7
<b>Ireland</b>	5.8	4.3	3.9	4.4	4.7	4.5	4.3	4.4	4.6
Min	4.5	3.5	3.0	3.6	3.5	3.3	3.2	3.3	na
Max	8.8	6.2	5.9	6.5	6.3	5.7	5.8	5.4	na
<b>Latvia</b>	13.8	14.2	13.1	12.1	10.5	10.4	8.9	6.8	6.0
Min	10.4	11.2	11.0	10.3	8.2	9.0	6.2	4.9	4.9
Max	20.5	20.5	20.0	17.8	15.4	12.7	13.1	10.8	8.0
<b>Lithuania</b>	13.4	15.9	16.8	13.7	12.4	11.4	8.3	5.6	4.3
Min	10.7	12.9	14.1	8.6	7.5	6.9	6.0	na	na
Max	17.6	19.1	21.9	16.2	16.9	16.0	10.8	na	na
<b>Netherlands</b>	3.6	2.9	2.3	2.8	3.7	4.5	4.7	3.9	3.2
Min	1.5	1.6	na	1.3	2.2	2.7	3.1	2.3	1.8
Max	9.9	8.8	na	6.2	7.0	9.8	10.8	5.8	5.4
<b>Poland</b>	12.3	16.1	18.2	19.9	19.6	18.9	17.7	13.9	9.6
Min	na	na	na	na	na	na	9.7	7.1	4.4
Max	na	na	na	na	na	na	28.5	25.9	21.0
<b>Romania</b>	6.9	7.2	6.6	8.4	7.0	8.1	7.2	7.3	6.4
Min	2.9	2.6	2.9	4.0	3.7	4.0	na	na	na
Max	14.8	17.3	15.5	19.9	13.5	18.7	na	na	na
<b>Slovakia</b>	16.4	18.8	19.3	18.7	17.5	18.2	16.3	13.4	11.1
Min	7.4	7.3	8.3	8.7	7.1	8.3	5.3	4.6	4.3
Max	23.3	25.6	24.9	25.4	23.9	26.7	24.7	21.1	20.4

Contd...

**Figure 3(d): Unemployment rates at NUTS3, contd...**

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Slovenia</b>	7.4	6.7	6.2	6.3	6.7	6.3	6.5	6.0	4.8
Min	na	na	na	na	na	na	4.6	4.1	3.2
Max	na	na	na	na	na	na	10.4	9.6	7.9
<b>Spain</b>	15.7	13.9	10.5	11.5	11.5	11.0	9.2	8.5	8.3
Min	na	na	na	na	na	na	4.7	3.7	3.0
Max	na	na	na	na	na	na	19.7	21.0	20.3
<b>Sweden</b>	7.6	5.4	4.8	5.1	5.7	6.5	7.5	7.1	6.2
Min	3.9	3.2	3.3	3.2	3.8	4.6	na	na	4.1
Max	14.6	11.4	7.7	7.7	9.2	9.5	na	na	7.8

**Note:** Full data not available at NUTS 3 level

**Source:** Eurostat



Figure 3(e): Disposable household income (PPS) per head, NUTS 2

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Austria</b>	14249.0	15291.0	15071.0	15472.0	15974.0	16565.0	17442.0	18345.0	19022.0
Min	13007.0	13924.0	13937.0	14394.0	14954.0	15521.0	16523.0	17420.0	18128.0
Max	16069.0	17056.0	16630.0	16929.0	17262.0	17700.0	18280.0	18977.0	19545.0
<b>Belgium</b>	12987.6	14300.0	14803.2	15095.7	14472.1	14686.7	15071.6	15669.7	16180.9
Min	11296.2	12086.1	12674.8	12629.5	12233.4	12515.3	12939.6	13455.8	13917.5
Max	15515.5	17096.3	17710.0	18260.0	17538.8	17733.8	18205.6	18892.6	19529.8
<b>Bulgaria</b>	na	2295.7	2583.8	2791.4	2980.2	3500.0	3499.0	3740.3	4228.2
Min	na	1907.4	2251.9	2384.6	2590.2	3021.0	2844.8	3092.6	3575.0
Max	na	2694.7	3163.6	3323.6	3458.8	4228.8	4250.1	4495.2	5541.1
<b>Czech Rep</b>	6356.8	6629.5	7033.9	7129.2	7539.4	7744.4	8309.4	8932.7	9764.7
Min	5790.1	6001.7	6373.5	6401.6	6702.0	6876.3	7362.3	7945.8	8517.1
Max	8449.2	8827.3	9532.6	9707.7	10427.5	10577.8	11225.0	12246.7	13180.5
<b>Denmark</b>	10412.1	10788.5	10989.7	11441.2	11186.0	11745.9	12036.6	12757.1	13096.4
Min	na	10427.5	na	na	na	na	11707.4	12455.8	12857.9
Max	na	11444.9	na	na	na	na	12549.4	13265.4	13517.6
<b>Estonia</b>	3595.6	4052.8	4297.5	4817.7	5091.1	5447.0	6101.3	6938.2	7857.2
<b>Finland</b>	9363.4	9802.5	10118.4	10673.8	10994.7	11781.0	11964.0	12479.8	13453.5
Min	8452.7	8781.2	9014.1	9526.4	9848.2	10541.8	10818.4	11447.0	12306.7
Max	11899.9	12636.5	12928.9	13780.2	14140.1	14810.7	14187.3	13538.9	14888.3
<b>France</b>	12467.2	13396.7	14716.8	15380.8	14738.0	15278.0	15923.8	16495.9	17325.7
Min (ex DOM)	10211.3	11112.9	12314.2	12849.1	12378.5	12833.5	13456.5	14316.2	14939.0
Max	15411.0	16557.9	18177.2	19222.8	18306.0	19019.6	19545.1	19704.1	21072.4
<b>Germany</b>	14600.0	15102.2	15604.1	15751.7	16145.2	16615.1	17192.4	17645.6	18059.5
Min	11625.0	12046.7	12410.9	12553.8	12865.0	13269.4	13719.2	14060.6	14330.8
Max	17253.9	18047.2	19066.1	19393.7	20171.4	21208.4	22355.6	22355.4	22920.2
<b>Greece</b>	10069.5	10184.3	11180.7	12068.4	11693.7	12128.2	12767.3	13401.0	14816.5
Min	7744.8	7839.1	8486.0	9145.5	9108.3	7636.4	7495.6	7454.1	8553.9
Max	13710.2	13735.3	14844.9	16062.4	14737.1	15277.1	15673.4	16501.7	18251.2
<b>Hungary</b>	na	5721.1	6168.3	6758.9	7031.7	7337.1	7739.2	8080.6	8051.7
Min	na	4060.2	4551.7	4986.0	5177.7	5002.3	5495.1	6097.8	6269.3
Max	na	7560.1	8069.6	9110.2	9670.0	10328.3	11078.9	10867.6	10505.9
<b>Ireland</b>	10528.1	11340.4	12248.5	12416.4	12821.0	13767.0	14409.7	14958.7	15707.9
Min	9509.4	10306.7	11261.4	11022.1	11423.7	12264.2	13056.6	13489.2	14108.6
Max	10892.6	11710.9	12601.7	12856.2	13284.1	14308.2	15145.5	15600.2	16292.7

Contd...

Figure 3(e): Disposable household income (PPS) per head NUTS 2, contd...

	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Italy</b>	13242.1	13835.3	14278.3	14377.5	14542.3	14675.5	15001.4	15943.6	16054.8
Min	8945.4	9291.2	9759.9	9881.7	10186.2	10276.6	10585.3	10954.2	11343.8
Max	17060.8	17867.1	18249.7	18220.7	18325.1	18209.6	18452.0	19235.3	20113.6
<b>Latvia</b>	3171.6	3657.6	3898.9	4385.6	4765.7	5264.7	5801.3	6775.6	7736.2
<b>Lithuania</b>	3929.7	4350.1	4609.5	5071.5	5692.4	6121.9	6839.1	7548.9	8091.8
<b>Netherlands</b>	11581.9	12281.1	13012.4	13941.2	13207.1	13582.0	13987.8	14423.3	15569.1
Min	10790.2	11321.1	11568.8	12559.9	11975.3	11856.6	12153.3	12605.9	13675.3
Max	12538.4	13155.1	14251.8	15815.3	14408.4	14708.0	15356.9	15981.5	17061.4
<b>Poland</b>	5479.8	5791.0	6085.5	6279.8	6316.5	6703.4	6843.6	7247.3	8095.1
Min	4361.0	4502.3	4708.2	4809.9	4856.7	5075.7	5213.5	5573.7	6231.5
Max	6937.8	7450.0	7843.9	8094.6	8077.7	8546.5	8721.5	9165.8	10247.5
<b>Portugal</b>	8554.3	9187.5	9505.3	9612.5	9908.5	10059.4	10655.0	11060.4	11215.4
Min	7354.0	7866.0	8153.7	8124.8	8304.7	8470.5	8939.8	9309.9	9470.3
Max	10891.2	11673.9	12033.0	12377.8	12680.1	12852.3	13732.9	14110.7	14373.8
<b>Romania</b>	2465.4	2858.8	3359.2	3356.2	3198.2	4023.1	4067.2	4491.1	5199.5
Min	na	2279.1	2772.8	2701.3	2434.0	3244.2	3219.6	3577.2	4064.4
Max	na	9712.0	10211.9	10824.5	10766.6	11414.7	12016.3	12497.7	13064.7
<b>Slovakia</b>	5215.2	5449.3	5969.9	6361.7	6102.4	6461.7	7259.3	7832.1	8905.0
Min	4811.1	4962.0	5369.0	5598.3	5373.1	5574.5	6201.9	6718.1	7389.6
Max	7591.1	8004.6	8833.2	9496.8	9126.1	9982.7	11867.3	12195.1	13749.3
<b>Slovenia</b>	na	8951.5	9400.4	10002.0	9984.6	10602.3	11215.2	11701.0	12289.1
Min	na	8311.3	8714.1	9305.6	9320.4	9910.2	10530.4	11018.3	11621.1
Max	na	9712.0	10211.9	10824.5	10766.6	11414.7	12016.3	12497.7	13064.7
<b>Spain</b>	10170.0	11466.7	12024.7	12678.5	12715.5	12981.1	13718.3	14348.7	14793.3
Min	7594.8	8315.0	8874.8	9429.0	9532.8	9772.9	10561.0	11196.4	11722.6
Max	12671.9	14414.4	15180.3	16037.4	16080.9	16563.6	17648.6	18810.7	19640.5
<b>Sweden</b>	10449.2	11388.8	11962.9	12490.1	12706.9	13150.4	13450.2	14060.3	14982.7
Min	9388.2	10117.6	10517.8	11024.6	11213.4	11811.9	12068.3	12579.5	13621.7
Max	12167.2	13334.0	14268.6	14770.1	14822.9	15144.6	15517.2	16181.6	17070.7
<b>UK</b>	13338.5	14561.2	15544.0	15784.0	16296.0	16731.2	17218.7	17725.5	17440.0
Min	11139.5	12082.0	12850.5	13185.2	13576.1	14063.8	14177.7	14346.6	14240.0
Max	18060.6	21114.0	21506.1	20884.7	21646.1	22602.0	23833.8	25331.7	24732.8

**Note:** Data is not available for Cyprus, Luxembourg and Malta

**Source:** Eurostat

**Figure 4(a): Regional aid expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Austria	0.046	0.032	0.037	0.042	0.005	0.029
Belgium	0.056	0.054	0.038	0.051	0.017	0.035
Bulgaria	0.130	0.095	0.073	0.090	0.056	0.015
Cyprus	0.015	0.048	0.035	0.043	0.024	0.005
Czech Rep	0.104	0.137	0.252	0.228	0.261	0.532
Denmark	0.002	0.001	0.003	0.002	0.000	0.000
Estonia	0.014	0.027	0.022	0.015	0.014	0.005
Finland	0.034	0.034	0.048	0.043	0.025	0.028
France	0.052	0.053	0.087	0.104	0.137	0.159
Germany	0.146	0.122	0.118	0.132	0.093	0.130
Greece	0.149	0.172	0.123	0.136	0.208	0.252
Hungary	0.283	0.230	0.304	0.189	0.203	0.748
Ireland	0.065	0.052	0.076	0.068	0.065	0.063
Italy	0.112	0.080	0.080	0.071	0.045	0.052
Latvia	0.056	0.141	0.137	0.107	0.116	0.093
Lithuania	0.054	0.066	0.071	0.057	0.022	0.386
Luxembourg	0.106	0.048	0.040	0.021	0.023	0.015
Malta	0.000	0.000	0.000	0.000	0.000	0.000
Netherlands	0.014	0.006	0.005	0.004	0.011	0.003
Poland	0.102	0.096	0.077	0.148	0.095	0.314
Portugal	0.032	0.044	0.026	0.025	0.066	0.060
Romania	0.142	0.133	0.050	0.054	0.012	0.027
Slovakia	0.266	0.280	0.273	0.276	0.193	0.267
Slovenia	0.045	0.033	0.143	0.148	0.112	0.218
Spain	0.134	0.115	0.113	0.116	0.129	0.159
Sweden	0.020	0.032	0.041	0.045	0.040	0.049
UK	0.050	0.066	0.042	0.030	0.028	0.018

Source: DG Competition

**Figure 4(b): Efd Expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Austria	2.212	5.789	2.468	2.281	2.243	2.228
Belgium	2.423	1.987	4.703	2.188	1.958	1.965
Bulgaria	2.903	2.604	2.976	3.471	3.897	4.723
Cyprus	3.150	3.517	2.739	2.942	2.582	2.422
Czech Rep	6.612	6.488	6.075	6.202	5.596	6.730
Denmark	1.414	1.614	1.499	1.590	1.430	1.405
Estonia	3.416	3.381	3.449	4.575	5.002	5.421
Finland	2.243	2.269	2.195	2.221	2.177	2.346
France	2.723	2.830	2.996	2.942	2.960	2.927
Germany	2.626	2.435	2.376	2.234	2.210	2.326
Greece	4.783	5.301	3.769	3.361	3.392	5.594
Hungary	3.697	3.581	3.802	4.608	4.150	3.546
Ireland	3.942	3.810	3.911	4.054	4.837	6.201
Italy	3.414	3.187	3.217	4.227	3.352	3.060
Latvia	1.423	2.227	3.823	4.583	4.949	4.930
Lithuania	2.540	2.944	2.967	3.262	3.855	4.047
Luxembourg	4.021	3.958	3.932	3.047	2.994	2.847
Malta	7.054	3.493	4.812	4.178	3.807	2.710
Netherlands	3.181	2.948	2.872	2.793	2.892	3.184
Poland	3.166	3.107	3.441	3.865	3.945	4.398
Portugal	3.714	3.826	3.768	2.855	2.996	3.164
Romania	3.450	3.298	3.271	5.150	5.557	5.621
Slovakia	2.234	2.223	2.290	2.453	2.262	2.865
Slovenia	2.676	2.530	3.030	3.084	3.232	3.920
Spain	4.168	4.543	4.213	4.356	4.592	4.438
Sweden	2.250	2.180	2.409	2.167	2.220	2.386
UK	2.034	2.030	2.039	2.313	2.222	4.397

**Notes:** Efd refers to the Ismeri-Applica definition of Expenditure for Development used elsewhere in this report.

**Source:** Ismeri *et al*, 2010

**Figure 4(c): Social protection expenditure (% of GDP)**

	2003	2004	2005	2006	2007
Austria	28.7	28.5	28.0	27.7	27.1
Belgium	27.7	27.8	28.2	28.8	28.0
Bulgaria	na	na	na	15.5	14.5
Cyprus	18.0	17.7	18.0	18.0	18.1
Czech Rep	19.5	18.7	18.5	18.0	18.0
Denmark	30.0	29.8	29.4	28.5	28.1
Estonia	12.4	12.8	12.4	12.1	12.3
Finland	25.7	25.8	25.9	25.4	24.6
France	29.0	29.4	29.5	29.3	29.0
Germany	29.4	28.7	28.6	27.6	26.7
Greece	22.7	22.8	23.9	23.9	23.8
Hungary	20.8	20.2	21.5	21.9	21.9
Ireland	16.7	16.9	16.9	17.0	17.6
Italy	24.9	25.1	25.4	25.6	25.5
Latvia	13.1	12.3	11.9	11.9	10.7
Lithuania	13.1	12.8	12.7	12.8	13.9
Luxembourg	21.7	21.9	21.3	19.9	19.0
Malta	18.1	18.6	18.3	18.0	17.9
Netherlands	26.5	26.4	26.0	27.0	26.8
Poland	20.7	19.7	19.2	19.0	17.8
Portugal	22.4	23.1	23.7	23.8	23.4
Romania	12.7	12.4	13.0	12.2	12.6
Slovakia	17.6	16.6	15.9	15.7	15.4
Slovenia	23.3	22.8	22.5	22.1	20.8
Spain	20.1	20.2	20.4	20.4	20.5
Sweden	31.9	31.4	30.9	30.1	29.0
UK	25.3	25.4	25.8	25.6	24.8

Source: Eurostat

**Figure 4(d): Cohesion policy expenditure (% of GDP)**

	2003	2004	2005	2006	2007	2008
Austria	0.134	0.135	0.139	0.119	0.098	0.082
Belgium	0.043	0.121	0.123	0.098	0.104	0.115
Bulgaria	0.000	0.000	0.000	0.000	0.501	0.654
Cyprus	0.000	0.042	0.065	0.100	0.216	0.274
Czech Rep	0.000	0.183	0.151	0.408	0.721	1.136
Denmark	0.056	0.093	0.059	0.057	0.057	0.042
Estonia	0.000	0.388	0.644	1.077	1.387	1.474
Finland	0.225	0.238	0.185	0.191	0.179	0.116
France	0.124	0.145	0.147	0.124	0.287	0.218
Germany	0.175	0.210	0.205	0.189	0.178	0.123
Greece	1.107	1.530	1.357	1.706	0.116	0.089
Hungary	0.000	0.246	0.381	0.769	1.290	1.126
Ireland	0.432	0.563	0.328	0.269	1.291	1.272
Italy	0.340	0.325	0.303	0.305	0.288	0.235
Latvia	0.000	0.581	0.824	0.876	2.071	1.656
Lithuania	0.000	0.520	0.758	0.800	1.629	1.957
Luxembourg	0.025	0.106	0.037	0.061	0.036	0.137
Malta	0.000	0.143	0.113	0.318	0.900	0.771
Netherlands	0.046	0.072	0.080	0.086	0.044	0.113
Poland	0.000	0.413	0.322	0.717	1.356	1.272
Portugal	2.700	2.409	1.927	1.630	1.506	1.543
Romania	0.000	0.000	0.000	0.000	0.338	0.464
Slovakia	0.000	0.342	0.409	0.602	1.157	1.250
Slovenia	0.000	0.090	0.186	0.293	0.460	0.632
Spain	1.154	1.145	0.877	0.586	0.436	0.433
Sweden	0.142	0.140	0.124	0.097	0.090	0.046
UK	0.085	0.125	0.188	0.155	0.115	0.115

Source: EU Budget 2008 Financial Report

Figure 5: Cohesion Policy 2007-13 (€m, current prices)

	Convergence Objective		Regional Competitiveness and Employment Objective			European Territorial Cooperation Objective	Total
	Cohesion Fund	Convergence	Statistical Phasing-out	Phasing-in	Regional Competitiveness and Employment		
België/Belgique			638		1425	194	2258
Bulgaria	2283	4391				179	6853
Ceska Republica	8819	17064			419	389	26692
Denmark					510	103	613
Deutschland		11864	4215		9409	851	26340
Eesti	1152	2252				52	3456
Ellas	3697	9420	6458	635		210	20420
España	3543	21054	1583	4955	3522	559	35217
France		3191			10257	872	14319
Ireland				458	293	151	901
Italia		21211	430	972	5353	846	28812
Kypros	213			399		28	640
Latvija	1540	2991				90	4620
Lietuva	2305	4470				109	6885
Luxembourg					50	15	65
Magyarország	8642	14248		2031		386	25307
Malta	284	556				15	855
Nederland					1660	247	1907
Österreich			177		1027	257	1461
Polska	22176	44377				731	67284
Portugal	3060	17133	280	448	490	99	21511
Slovenija	1412	2689				104	4205
Slovensko	3899	7013			449	227	11588
Suomi-Finland				545	1051	120	1716
Sverige					1626	265	1891
United Kingdom		2738	174	965	6014	722	10613
Romania	6552	12661				455	19668
<b>Total</b>	<b>69578</b>	<b>199322</b>	<b>13955</b>	<b>11409</b>	<b>43556</b>	<b>8723</b>	<b>347410</b>

Note: Due to rounding, figures may not add-up exactly to the total shown

Source: DG Regio.

**Figure 6: Cohesion Policy 2007-13 (2004) prices**

	EU commitment appropriations				National cofinancing	
	Total (€mn)	Annual av. % 2004 GDP	Annual av. € per head	EU percent co-finance	Annual av. % 2004 GDP	Annual av. PPS per head
Austria	1297.313	0.079	22.9	56.1	0.0631	17.3
Belgium	2014.018	0.101	27.9	47.9	0.1051	28.5
Bulgaria	6032.192	4.429	109.1	83.1	0.7868	63.1
Cyprus	579.310	0.667	115.7	84.5	0.1018	24.0
Czech Rep	23637.990	3.915	331.0	85.3	0.5706	107.3
Denmark	543.863	0.040	14.5	54.6	0.0205	4.8
Estonia	3050.431	4.900	320.1	87.2	0.1948	72.5
Finland	1528.203	0.146	42.0	47.2	0.1581	40.5
France	12704.151	0.112	29.6	42.5	0.1032	21.4
Germany	23391.166	0.151	40.5	61.4	0.0696	15.8
Greece	18171.661	1.571	236.3	78.2	0.2168	80.0
Hungary	22395.347	3.983	314.9	85.2	0.5606	92.0
Ireland	812.508	0.079	29.6	36.8	0.1322	42.5
Italy	25582.830	0.270	63.9	47.9	0.2776	67.1
Latvia	4080.129	5.268	249.2	78.0	0.8538	81.2
Lithuania	6081.433	4.846	250.4	81.0	0.6418	70.7
Luxembourg	57.915	0.032	18.5	43.3	0.0294	15.7
Malta	758.913	2.502	273.8	84.5	0.3417	74.3
Netherlands	1691.857	0.052	15.0	45.2	0.0388	9.7
Poland	59548.646	4.358	222.5	79.5	0.6908	93.2
Portugal	19099.033	2.021	263.1	65.5	0.5505	98.7
Romania	17273.343	4.186	112.9	83.1	0.6753	60.1
Slovakia	10238.664	4.416	271.3	85.4	0.6254	90.7
Slovenia	3729.381	2.057	267.0	85.7	0.2331	61.3
Spain	31457.440	0.563	110.8	70.6	0.1942	51.2
Sweden	1678.008	0.086	26.9	51.4	0.0762	21.5
UK	9443.860	0.079	22.8	51.5	0.0625	16.9

**Source:** Own calculations from Com decisions on commitment appropriations; Inforegio; Eurostat.