

EoRPA Report 22/1, EoRPA Regional Policy Research Consortium

ISBN 978-1-914241-32-1, University of Strathclyde Publishing



The European Regional Policy Research Consortium (EoRPA) is funded by eleven national government ministries and agencies responsible for regional policy in Austria, Finland, Germany, Italy, Netherlands, Norway, Poland, Portugal, Sweden, Switzerland and the United Kingdom. It is managed and run by EPRC and produces comparative research and knowledge exchange on regional policy in 30 countries.

This paper should be cited as: Georgieva, N (2022) *Regional Policies in Europe: Managing Territorial Inequalities and Global Transitions*, EoRPA Report 22/1, EoRPA Regional Policy Research Consortium, European Policies Research Centre, University of Strathclyde, Glasgow and EPRC Delft

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EXECUTIVE SUMMARY

Regional policies across Europe in 2021-2022 have been operating in a volatile and uncertain environment framed by the continued recovery from COVID-19, the conflict in Ukraine and the cost-of-living crisis. Despite these challenging conditions, an overview of developments in regional policy over the past 12-18 months indicates that strategic thinking has been largely shaped by long-term political and policy priorities, although the implications and lessons learnt from the pandemic are being reflected in some implementation mechanisms.

National economic activity has largely returned to pre-pandemic levels, although the recovery in most countries is asymmetric at regional and local level. Economically prosperous and industrial regions have been more able to return to previous development paths. Tourist regions, including both rural and large urban areas, as well as regions with pre-existing structural weaknesses, however, have not been able to recover as quickly.

Apart from the National Recovery and Resilience Plans, a number of recovery measures to address the medium- to long-term implications of the pandemic which include a strong local and social dimension are anticipated. The potential for longer-term opportunities for regional policy, in

particular associated with teleworking and its implications for rural areas and small towns, continue to stimulate considerable policy and political interest, although the full extent of changes will take time to emerge.

In addition to recovery measures and crisis responses, developments in the long-term approach to regional policies over the past 12 months are evident in three main areas: strategic objectives, implementation mechanisms and institutional arrangements. A strong common focus emerges in terms of ensuring coherent territorial development and advancing the integration of sustainability and climate objectives in regional policies. In some countries, more fundamental re-thinking is underway (including Germany, Switzerland and the UK) while in others, developments are a continuation of existing longer-term strategic thinking and approaches to regional policy.

Reviewing in more detail recent prominent trends in regional policies, this overview provides comparative analysis of efforts by European governments to manage sustainability transitions and build territorial resilience through public services, and identifies areas for further policy reflection and action.



1 INTRODUCTION

Over the past few decades, territorial disparities in economic performance and welfare have been on the rise. This has been driven by multiple processes. Among those, prominent challenge has been the slowdown in productivity increase with implications on real income growth and nations' ability to invest in skills, innovation, services and infrastructure.¹ Further, growth models favouring agglomeration economies have benefited more economically prosperous regions and resulted in territorial concentration of investment and R&I, business creation and infrastructure. Expected distributional effects of these 'growth poles' have been in reality limited.² Negative aspects related to deindustrialisation and globalisation also weighted heavier on some regions, which were often the less prosperous and resilient regions.³ Trends in territorial divides and regional development have been further shaped by global shocks. The global financial crisis caused regions at different levels of economic prosperity to experience long-term economic stagnation including low growth, weak productivity increases and low employment creation, while some frontier regions continued to grow.⁴ Territorial disparities have become increasingly visible at the intra-regional level as well, along urban-rural rifts and metropolisation formations⁵. At the same time, long-term structural challenges in areas with low population density and geographical accessibility, with asymmetric access to labour, infrastructure and services, continued to be pronounced.

The emergence of new types of disparity is also evident. Demographic trends, globalisation and technological progress have all been driving substantial change in skills demand and shortages of (high-skilled) workers are increasingly apparent, impacting productivity and making rural challenges more pressing. Digitalisation has created new development opportunities, especially in urban and neighbouring rural areas, but this has also put pressure on more remote and sparsely populated places which lack high speed broadband access. Environmental crises have had a particular territorial dimension requiring responses at new geographical scales. Finally, the affordability of housing is emerging as a particular challenge for regional development in some places. These new challenges have been unfolding along more recent shocks triggered by COVID-19 pandemic and the war in Ukraine, both of which have strong sectoral impact translating into territorial one.

This background context provides a clear and strong rationale for regional policies which aim to address diverse territorial disparities in economic, social and more recently environmental outcomes. The complex nature of the challenges, and the ever increasing range of objectives that regional policies aim to address, however, require continuous review and a rethinking of strategic frameworks, institutional and implementing mechanisms. Developments in strategic policy thinking in the past 12-18 months have been marked by:

- continued effort to design a more holistic and longer-term approach to regional development integrating (environmental) sustainability and broader place attractiveness factors such as well-being;



- strengthened support in addressing territorial inequalities and levelling-up development, with new models being tested and place-based approaches extended; and
- increased attention to policy coordination among territorial and sectoral policies/investments with stronger emphasis on monitoring and impact assessment.

In Section 2, this paper takes stock of the broader developments that have been impacting economic and territorial growth with corresponding challenges for regional policies. The primary focus is on the territorially unequal impact of COVID-19, associated policy responses and long-term policy implications. The paper then provides an overview of recent developments in regional policies across Europe in Section 3 before focusing in Section 4 on two trends of growing relevance for regional policies – integrating sustainability and green transition into policy delivery and building resilient communities with focus on public services. Conclusions and reflections that could inform future policy outlook are provided lastly in Section 5.

2 REGIONAL POLICIES IN 2021-2022: CHALLENGING REALITY

2.1 National and regional asymmetric impact and recovery from COVID-19

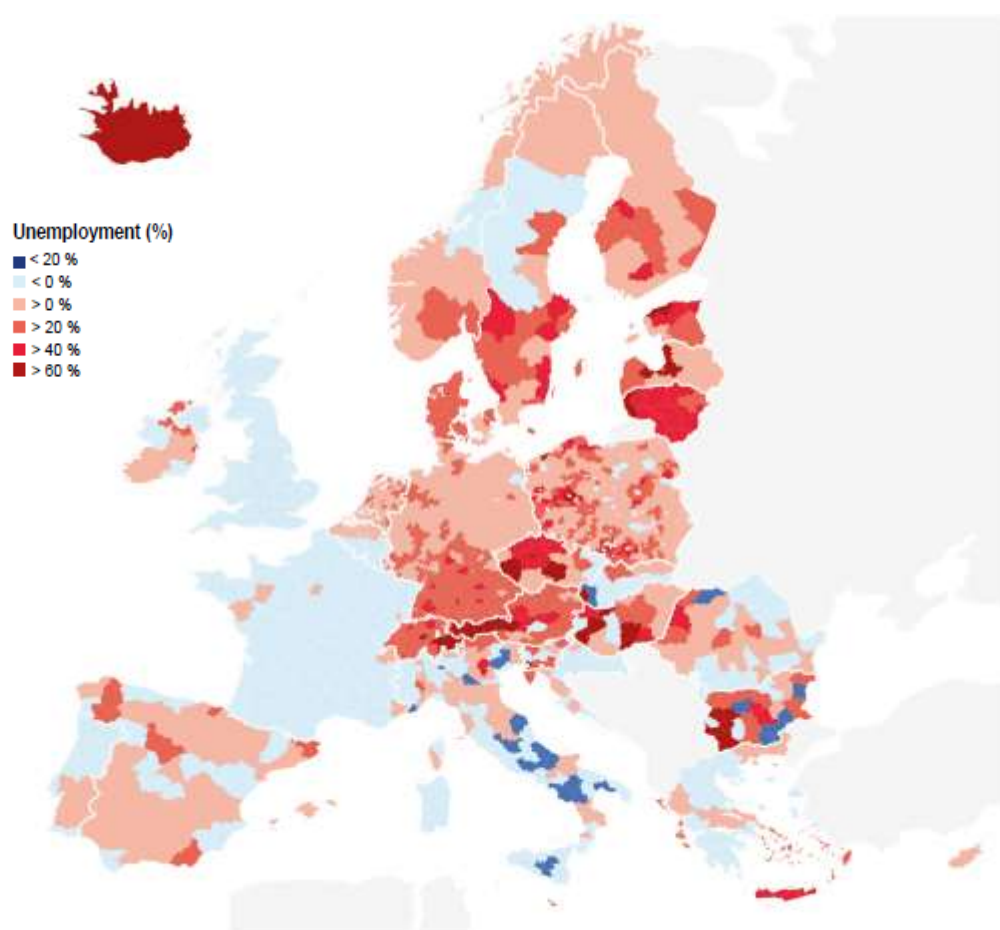
Despite a resurgence of the pandemic in 2021-2022, most European economies have started to recover at a rapid pace from the crisis, following the overall improved public health situation and the easing of containment measures resulting in a strong rebound in trade and household consumption. **This led to the recovery of national GDP to pre-pandemic levels in some countries in late 2021** (incl. CH, FI, NL, NO, PL, SE), **with others catching up during 2022** (incl. AT, DE, IT, PT, UK). However, in 2022 growth has generally slowed down in European countries and **estimates of GDP growth for 2022-23 have been revised downwards**.⁶ This is related to increasing inflationary pressure and the tightening of monetary policy together with the disruption of global supply chains and trade and heightened uncertainty triggered by the Russian invasion in Ukraine (see Section 2.5). **National unemployment rates in 2021 remained slightly above the pre-pandemic levels in most countries** (including AT, CH, DE, FI, NO, SE, PL, UK), **while dropping below 2019 levels in some cases** (including IT, NL, PT). At the same time, in a number of countries, **labour shortages have been rising** (e.g. in Sweden, the Netherlands) putting pressure on wages, inflation and economic recovery. There are a number of reasons for this, including the strong rebound in activity, the reduced number of foreign workers who used to fill in the gap (due to COVID-19 and then the war in Ukraine), and difficulties in attracting employees who moved to different sectors during the pandemic.





The impact of the COVID-19 crisis, and the subsequent recovery, has been asymmetric at regional and local level. This is confirmed by the increasing availability of regional socio-economic and social wellbeing data and national evaluations.^{7,8} In terms of unemployment, for example, there have been clear spatial variations in the evolution of unemployment levels within countries between 2019-2020 (see Figure 1). According to an ESPON study, the majority or all regions in Italy, France and the UK⁹ experienced only a limited impact on unemployment and, indeed, a falling trend can be observed in some cases.¹⁰ This is attributed to the impact of a range of domestic response measures such as a ban on dismissing employees from certain industries in Italy or the substantial short-time working/wage-subsidy schemes (in France this was estimated at €100 billion).¹¹ Other countries, however, experienced more prominent spatial variations (e.g. Austria, Sweden, Czechia, Hungary, Bulgaria and the Baltic States) driven in part by the initially strong impact of the pandemic on large metropolitan areas and tourist regions.

Figure 1: COVID-19 socio-economic consequences: evolution of unemployment (%), 2019-2020



Regional level: NUTS
mixed levels (LAU & NUTS3-2) | Data version: 2021 Source: ESPON Territorial impacts of COVID-19, 2022 © UMS RIATE for administrative boundaries

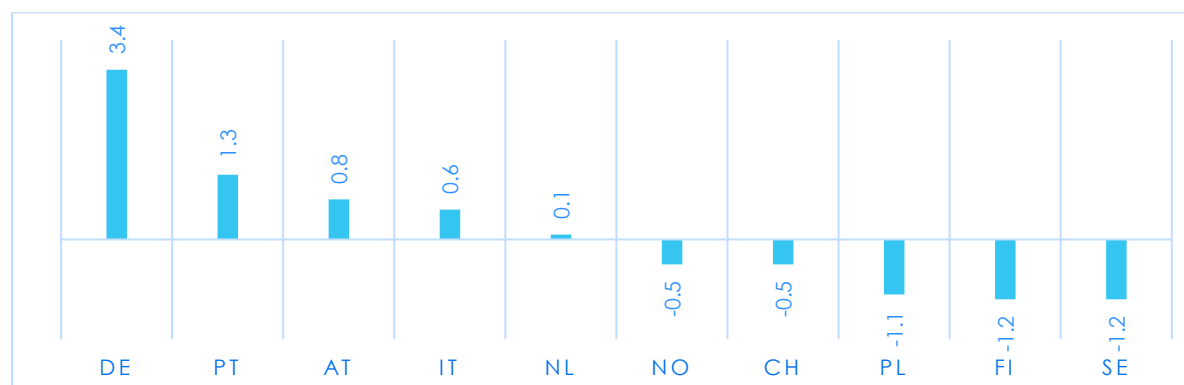
Source: ESPON (2022) *A brief radiography of the social and territorial consequences of two years in the COVID-19 pandemic, Thematic paper.*



A comparison of unemployment levels between 2019 and 2021 indicates that the recovery process has also impacted unemployment in a spatially differentiated way. Among EoRPA Member countries, **unemployment in some large urban areas continued to be negatively impacted** (e.g. highest percentage change recorded in *Wien and Tyrol* in Austria and in *Oslo og Akershus* in Norway), which largely reflects the slower recovery process in regions with a strong tourism base. **In several countries such as Germany, Poland, Portugal and Italy, the trend across regions was divergent, with unemployment levels in some regions falling to below pre-crisis levels by 2021, while in others they remained above.** This could be the result of a number of factors, including: the higher capacity of economically strong regions to rebound and a higher proportion of jobs that can be performed remotely (e.g. the *Mazowieckie Voivodeship* in Poland); the recovery in global demand and trade which favoured regions with a high proportion of industry (e.g. *Piemonte* in Italy); and the protracted recovery in tourism-based regions (e.g. *Algarve* in Portugal).

In terms of social well-being indicators, it is clear that social benefits and national short-term work schemes have alleviated the impact of the pandemic on disposable income to a significant degree and, in many countries, stabilised the risk of poverty. However, in some countries, there has been significant increase in the number of regions affected by an increase of households with income below the risk of poverty threshold. This has been highest in the UK (estimated 85.4 percent of regions experiencing an increase) followed by Germany (25 percent of regions) and Latvia (9.9 percent of regions).¹² In 2021, national levels of people at risk of poverty and social exclusion remained higher compared to 2019 in several EoRPA Member countries (see Figure 2). This is possibly a result of the asymmetric impact on certain working groups such as self-employed, temporary and low-paid workers (especially women and youth) and on age groups (especially pensioners), together with overall inflationary pressure that started to develop from the second half of 2021.

Figure 2: People at Risk of Poverty and Social Exclusion (% change between 2019 & 2021 levels)



Source: https://ec.europa.eu/eurostat/databrowser/view/SDG_01_10/default/table, source for NO - <https://www.ssb.no/en/statbank/table/12123/>; for CH – 2020 value; No public data for the UK, which is why the country is not present on the figure.





2.2 Insights into the unequal regional impact and recovery from COVID-19

The regional socio-economic impact of COVID-19 in 2021-2022 has been defined by both sectoral and territorial factors. Sectoral factors include regional sector-specific characteristics which made some regions specifically vulnerable to the nature of the crisis or, conversely, supported their recovery. In 2021-22, those regional economies that specialised in sectors that continued to be hard-hit – travel, accommodation, gastronomy, culture – were disproportionately impacted (mostly in Spain and Portugal but also elsewhere).¹³ Regions heavily dependent on tourism are also experiencing a more protracted recovery. This includes mountainous, coastal and island regions and small towns, but also large urban areas that have not yet been able to recover (e.g. Copenhagen in Denmark). The impact on industrial and export-oriented regions, however, has been more temporary, with industrial centres recovering relatively quickly following the lifting of the most severe restriction measures and the resumption of international trade (e.g. in Austria, Germany, Italy, the Netherlands). Many capital regions have also rebounded strongly thanks to a diversified economic structure, including sectors such as ICT and construction which were not significantly impacted by the pandemic (e.g. the UK). In terms of territorial factors, regions with structural weaknesses (including high unemployment, low income, limited access to public services) are experiencing more difficulty in responding to the negative socio-economic impact of the pandemic. This is visible in the recovery patterns in some countries (e.g. the UK, Czechia, the Netherlands) where existing territorial disparities are magnified as vulnerable regions take longer to return to a pre-crisis development path.

The strength and interaction between these two sets of factors have played out differently across nations. The impact in some countries appears to have been more sustained in regions with sectoral exposure, especially where the restrictions were softer, a larger share of jobs could be performed remotely and where territorial inequalities were more limited. Elsewhere, the economic effects spread more widely and deeply, affecting regions and areas that were already experiencing pre-crisis territorial vulnerabilities.

Domestic analyses of the territorial impact of COVID-19 shed more concrete insights into the heterogeneous impact on territories. In **Portugal**, the analysis reveals that territories highly dependent on tourism and those that are part of metropolitan areas were hardest hit in terms of their socio-economic structures. The analysis also identifies a significant number of municipalities where an overlap of different types of vulnerabilities is evident. In **France**, the main findings show that the territorial impact of the crisis only partially overlaps with the pre-existing territorial inequalities, as purely local factors have also contributed significantly to the magnitude of the impact. The French report also claims that COVID-19 may trigger a new 'urban exodus' as the pandemic has magnified the pre-existing trend of urban centres being challenged by their immediate peripheries. Both analyses combine indicators related to pre-crisis vulnerabilities and crisis-related impact (see Box 1).





Box 1: Evaluation of territorial vulnerabilities in Portugal and France



The **Portuguese** analysis¹⁴ first defined a typology of vulnerable territories according to the degree of exposure and susceptibility, and compared the different groups of municipalities in this typology with territorial impacts of the pandemic defined by the unemployment dynamics.

The analysis relied on the following indicators:

- **Susceptibility** (defined as a set of structural characteristics that weaken the socio-economic system in the face of adverse events): unemployment; income; inequality; fragility of the business fabric; and job insecurity.
- **Exposure** (related to characteristics that lack protection against risks of exogenous origin): dependence on tourism; dependence on refluxing export activities; dependence on real estate and construction activities.

An index was then calculated for each of these two dimensions, allowing the various municipalities to be grouped into three levels of susceptibility and exposure: high, medium and low. The results of the analysis reveal a significant number of municipalities (in Tâmega and Sousa, Algarve, and the Autonomous Regions of the Azores and Madeira) where a high degree of exposure coincides with an equally high degree of susceptibility. Finally, the study reflected on the issue of resilience and distinguished six groups of municipalities with different degree of resilience based on adaptation in unemployment patterns between February 2020 - December 2021.

The report¹⁵ to the **French** Government first mapped inequalities and territorial weaknesses evident before the crisis based on **three indicators relevant to an assessment of the decline of a territory and of welfare - unemployment rate, level of poverty and net migration of active population**. All employment areas were then ranked according to each of these three indicators establishing a ranking based on the average of the three individual rankings. This resulted in a map of territorial vulnerabilities pre-dating the crisis.

In order to quantify the unevenly distributed shock across territories, the report also sought to measure the crisis-related activity shock. Three indicators were used for this: **evolution in the expenditure of private companies on wages** (to measure the drop in activity of the private sector); **gross VAT** (to measure the evolution of intermediate or final consumption by households or businesses); and **reduced activity** (to measure the drop in the expenditure on wages compensated by the State). To better understand the territorial heterogeneity of the shock, the report distinguished between the impact that can be explained by local effects ('employment zone effect'), by the sectoral composition of the economic fabric ('sector effect') and by effects linked to the characteristics of companies ('company effect').

To counteract the lack of indicators related to social well-being in the territories, the report has constructed a new indicator using the social network Twitter. The aim was to analyse the feelings of the population located in different territories by measuring the evolution of the positivity of geo-localised Twitter messages between March 2019 and February 2021. The analysis of this new indicator shows that the unequal territorial distribution of the shock is reflected in the feelings of the French population.

Source: EorPA research





It should be noted that the assessment of the consequences and costs of the economic downturn caused by the pandemic, and the state of the recovery underway, depends on the selection of indicators examined. **Research performed in the aftermath of the global financial crisis, for instance, has stressed the need to supplement data, which was often focused on key socio-economic indicators, with broader measures of economic security and subjective well-being as well as to include changes in human and social capital in growth models (see Box 2).**¹⁶

Box 2: Study on ‘Beyond GDP: measuring what counts for economic and social performance’



In the years after the Great Recession (2007-09), caused by the global financial crisis, research identified an enormous gap between where the economy was now and where it might have been based on previous trends. While the explanation included the decline in labour input and investment, and the significant cutbacks in public investment with potential adverse effects on countries' future economic prospects, two other types of capital were also lost and were typically not taken into account in growth models. **The first is the loss of human capital.** Estimating human capital typically focuses on formal education, although learning on the job (via training or practice) is as important. When there are high levels of unemployment, as in times of recession, large number of people are not able to acquire on-the-job learning and skills. A deterioration in the state of knowledge, including institutional knowledge held within firms, also takes place due to bankruptcies. Such knowledge has an important contribution to productivity growth, which means that its decrease has a subsequent impact on productivity. **The second is the loss of social capital,** in particular trust in institutions. This concerned in particular societal groups who were already suffering from growing inequality. The way the recovery has been handled in some countries may also have given rise to a decrease in trust, as some governments declared the end to the recession when citizens continued to experience its negative consequences.

Source: Stiglitz, J., Fitoussi, J. and Durand, M. (2018) *Beyond GDP: measuring what counts for economic and social performance*, OECD Publishing, Paris

2.3 Key policy measures supporting the recovery

In response to new waves of the pandemic, governments extended sectoral, business and unemployment support in forms of subsidies, grants, loans and tax reductions over the course of 2021-2022. In particular, support for hard hit sectors (e.g. automotive, aerospace, culture, creative, hospitality industries), microenterprises and new businesses was continued. This was combined with the launch of business/economy restart programmes to support enterprises reopening together with measures promoting employment (e.g. in [Bulgaria](#), [Hungary](#), [Portugal](#), the [UK](#)). Territorially-differentiated or regional measures continued to be secondary, as in the first year of the pandemic, although in some countries the distribution of sectoral support continued to take account of territorial differences (e.g. in [Norway](#)) and a number of governments increased the fiscal capabilities of municipalities (e.g. in [Bulgaria](#), [Estonia](#)). Cohesion Policy and REACT-EU resources, in particular, have been crucial in many Southern in Central & Eastern European countries.



It is notable that, since the initial impact of COVID-19, a number of responses were devised with a strong consideration of the local level, which has played a key role in coping with and easing the impact on the ground. In the context of COVID-19, for example, the National Agency for Territorial Cohesion (ANCT) in [France](#) announced a focus on tailored interventions and support to local development projects contributing to the resilience of territories in 2021.¹⁷ This included the provision of administrative, technical, financial or legal support to municipalities, groups of municipalities, departments and regions in order to support complex projects, anticipate transitions, support the development of territorial projects, analyse territorial dynamics, share expertise between territories or revitalise businesses. In [Portugal](#), job maintenance continued to be supported as a crucial factor for local economies via a scheme for locally-based national productive investment in micro and small companies (the Incentive Scheme for Entrepreneurship and Employment).

The majority of short-term aid schemes had been phased-out by mid-2022 or are due to be terminated, giving way to long-term recovery. The National Recovery and Resilience Plans (NRRPs) have a major role in the recovery process. While initial analyses¹⁸ suggest that NRRPs might have given limited consideration to territorial impact overall, some NRRPs plan to support regional policy objectives via funding directed to regional policy instruments. Examples include the Special Economic Zones in [Italy](#) and support to industrial parks in lagging regions in [Bulgaria](#).

Apart from NRRPs, a number of recovery measures to address medium- to long-term implications of the pandemic are foreseen with domestic and ESIF budgets. Measures are being implemented almost exclusively via existing funding frameworks integrating measures in ESIF programmes, in contract/agreement-based frameworks or in regional aid schemes. **There is a strong local and social dimension to policy interventions once again supporting vulnerable communities and reinforcing principles whose importance has been underscored by the pandemic.** Different measures in [Czechia](#), [Hungary](#) and [Romania](#) target particularly the unemployed, low-income citizens, households' access to housing, education and local shops. [Scotland](#) emphasises the concept of 'Fair Work' in its Recovery Strategy, including an ambition to make payment of the real Living Wage to all employees a condition of public sector grants by summer 2022. High priority for the Scottish Government is also to deliver place-specific recovery measures via its Place Based Investment Programme and Community Wealth Building plans to protect and create good quality local jobs, as part of wider recovery plans. The [Welsh Government's](#) 2021 'Economic resilience and reconstruction mission' focuses a number of actions on the delivery of medium and longer-term recovery including: (i) strengthening of the foundational economy; (ii) fortifying the pursuit of social value with businesses and organisations in receipt of public funding; and (iii) a "COVID Commitment" pledge to ensure that anyone over 16 in Wales can access advice and support to find work.¹⁹





2.4 Long-term implications of COVID-19 on regional policy

The pandemic has not caused immediate major changes to strategic thinking on national regional policies. However, an impact on recent strategic developments is still visible in some countries and the potential for longer-term opportunities for regional policy continues to stimulate considerable policy and political interest as well as concrete policy responses in some countries.

The consequences of the pandemic have been taken into consideration in national/regional strategies and regional policy instruments. In [Czechia](#), measures highlighted in the Regional Development Strategy 2021+ on entrepreneurship, prevention of social exclusion via education, and the use of modern technologies for basic services, are seen as a response to the impact of the pandemic. In [Portugal](#), reflections were made in the Partnership Agreement for the 2021-27 Cohesion Policy period. The new [UK](#) Shared Prosperity Fund, launched in 2022 to replace EU Structural Funds in the UK, explicitly refers to recognising the “acute challenges town centres and communities have faced during the pandemic”.²⁰ In [Romania](#) and [Sweden](#), there is intention to take account of lessons learned during COVID-19 in forthcoming revisions of national fiscal equalisation systems.

While an assessment the potential long-term implications of the pandemic for regional policy remains challenging, it is clear that there is high policy interest in how to seize long-term opportunities. This is particularly evident in the area of increased digitalisation and the rise and mainstreaming of remote work/work from home (WFH). The latter has opened up opportunities for different types of places – particularly small and medium-sized cities and rural areas in proximity to cities - to strengthen their role as wealth creators and contribute to more balanced territorial development. Environmental benefits are also sought thanks to a reduction in commuting and urban congestion. In some countries, digitalisation and increased WFH may also offer new opportunities for areas that have been facing negative trends of depopulation, stagnation and demographic aging such as remote and rural areas in the Nordic countries. According to a study performed by Nordregio, however, the potential future of remote work varies somewhat in the light of the pre-existing policy context.²¹ In [Finland](#), the concept of multi-locality through an increase in remote work, and the possibility of working and living in multiple locations (e.g. use of secondary homes), is being monitored and analysed as one possible way of addressing depopulation and ageing in rural municipalities.²² In [Sweden](#), [Norway](#), and [Denmark](#), the links between regional policy and remote work are considered to be less clear. Overall, linking these two domains will require the creation of the right enabling conditions, for instance, by offering a high quality of life and access to services, including housing. Policy measures will also be need to address the unequal access to WFH that has been revealed by the pandemic– across national territories, age groups and gender.²³

Some countries have also taken concrete measures to seize potential long-term opportunities of the pandemic and take advantage of accelerated trends. New legislation and operational measures are emerging in the field of digitalisation and remote working, with [Ireland](#) being a



prominent example where possibilities to promote remote working and advance regional development are being discussed in Government and relevant Agencies (see Box 3). In Cyprus, a legislative framework for teleworking is being prepared and flexible working arrangement schemes have been included in the NRRP and ESF+. ²⁴

Box 3: Promotion of remote working in Ireland

The options to promote remote working are being discussed in Government and relevant Agencies in Ireland. Remote working proved viable during the crisis and its usage is likely to accelerate, supported by the accelerated roll-out of the National Broadband Plan. Opportunities for remote working are particularly of interest for the Irish Investment Development Agency (IDA). In its **Sustainable Growth and Recovery strategy 2021-2024**, IDA recognises that although remote working will introduce new locations as competitors for FDI internationally, it **will present opportunities to advance regional development through the creation of jobs in regional locations that might previously have been more likely to be based in urban centres**. The Agency is participating in discussions with stakeholders across Government including the Department of Enterprise, Trade and Employment (DETE) and the Department of Rural and Community Development on the potential of remote working to create jobs across all regions. IDA's approach to remote working will be guided by, and contribute to, the interdepartmental development of the National Strategy on Remote Work²⁵, and the ongoing initiatives in this area by, among others, DETE in the delivery of **Future Jobs Ireland** and the Department of Rural and Community Development's new rural development policy for Ireland. The Agency also aims to engage with clients and identify opportunities to promote the uptake of remote working with a view to supporting regional job creation. To do so, the Agency plans to **develop a value proposition for remote working projects**, which has the potential to stimulate regional growth, widen the available talent pool for client companies, lessen capacity pressures in cities, promote better work-life balance and support the green transition. As part of these efforts, IDA is engaging with the European Commission on the possibility to incentivise remote job creation under State Aid rules.

Source: IDA's Sustainable Growth and Recovery 2021 -2024 strategy,
<https://www.idaireland.ie/driving-recovery-and-sustainable-growth-2021-2024>

Other prominent fields of academic and policy attention have been around the role of regions in global value chains (GVCs) and internationalisation, and the changing nature of regional attractiveness. The role of regions in GVCs and internationalisation has received increased academic and policy interest post-COVID-19.^{26,27} **This relates to recent calls for policy to ensure that the positive impact of GVCs (on productivity and income) spreads more evenly across nations and, in particular, to engage lagging regions in tradable sectors.** Policy thinking on how to integrate the regional dimension in domestic strategies aimed at internationalisation and FDI attraction is visible in the Irish Sustainable Growth and Recovery 2021-2024 strategy.²⁸ The Strategy is framed around five interlinked pillars - growth, transformation, regions, sustainability and impact. COVID-19 is also seen to contribute to a rethinking of the factors that influence regional attractiveness in a globalised world. **Policy thinking on this issue is currently being informed by a study requested by the European Commission²⁹** which includes a number of regions in Portugal, France, Ireland, Italy, Spain, and Sweden. The aim is to analyse what





constitutes regional attractiveness in a post-COVID world across various dimensions, including in terms of investment flows and attraction of talent (e.g. (highly) qualified human resources).

2.5 New challenges: war in Ukraine and cost-of-living crisis

The conflict in Ukraine is causing widespread socio-economic implications across nations but also has a territorial dimension. The impact of the war is felt across Europe due to geographical proximity, value-chain integration and trade. An overarching implication of the war on regional economies is that it constrains investment growth. This is due to heightened uncertainty on prices and demand, coupled with increasing financing costs due to a tightening of monetary policy and financial conditions. Certain countries and regions are, however, more exposed to the negative consequences. Largely due to the high energy intensity and the importance of imports of gas from Russia, the Baltic and Eastern and Central European economies emerge as the most vulnerable Member States in the EU, according to a **vulnerability analysis** conducted by the European Commission.³⁰ Based on this analysis, France and Spain, together with Portugal and Malta are on average least exposed.

The impact on the economy also has a regional dimension due to regional economic and social ties. Some regions have previously had a comparatively high share of exports to Russia based on their industrial specialisation including Bremen in [Germany](#) (exports of passenger cars), the Flemish region in Belgium (chemicals or allied industries), and Emilia-Romagna in Italy (machinery and equipment).³¹ Some regions are also highly exposed to the loss of tourism revenues from Russian visitors resulting from flight restrictions, particularly in [Estonia](#), [Finland](#), [Italy](#), [Latvia](#), [Lithuania](#), and [Poland](#).³² Impact on the labour market is also evident (e.g. in [Finland](#) and [Poland](#)) especially when it comes to rural areas and seasonal agricultural labour reliant on a Ukrainian workforce.

The new crisis has heightened awareness of vulnerabilities in energy security and is expected to increase the prioritisation of public investment in green and energy transition, as well as on defence.³³ Longer-term consequences are also expected to emerge at regional level. In Finland, for example, some regions may need to rethink the basis for their Regional Strategic Programmes. The war has strengthened a number of existing regional development priorities, such as the need to prioritise green transition, while introducing new priorities including safety issues, the security of supply, but also the importance of relations between population groups. These issues underline once more the importance of strengthening regional resilience.

Value chain disruptions caused initially by COVID-19, and later on by the Russian invasion in Ukraine, have also led to rising prices across a broad spectrum of goods, including energy and food, triggering a cost-of-living crisis. Inflation has reached an all-time high of 9.8 percent in the EU in 2022, showing an annual increase of 7.2 percent.³⁴ Among EoRPA Member countries, the highest annual growth change in inflation between Q2 2021-Q2 2022 was recorded in





Poland and the Netherlands (over nine and seven percentage points respectively), and lowest in Norway and Switzerland (three and 2.5 percentage points respectively).

The cost-of-living crisis underlines once again the need for state action in addressing the roots of regional inequalities, going beyond GDP targets and tackling wider but linked issues such as energy, health, housing and jobs. The pressure on household disposable incomes has hit disproportionately low-income households as they lack the means to preserve their purchasing power and this situation pushes them into (energy) poverty.^{35,36} Countries with high poverty rates, or significant regional income inequalities, are therefore particularly exposed. Overall, rural and non-metropolitan regions are seen as particularly vulnerable due to lower average household income and a less diversified economic base.³⁷

3 REGIONAL POLICY DEVELOPMENTS IN 2021-2022

While the impact of the volatile and uncertain context of the pandemic, Ukraine and the cost of living crises on regional policy continues to unfold, ongoing longer term trends in policy thinking and approaches have been advancing as well. **Developments in the long-term approach to regional policies over the past 12 months occurred in three strands - strategic objectives, implementation mechanisms and institutional arrangements. Across these strands, a strong focus on ensuring coherent territorial development and furthering the integration of sustainability and climate objectives in regional policies is evident.** In addition to adaptations in measures targeting traditional business and entrepreneurship support, a strong anchoring in place-based approaches which acknowledge new geographies and wide stakeholder participation is also present in newly developed instruments, as well as efforts to re-design measures in order to respond to societal challenges. Governments continue to pursue the task of greater coherence of territorial and sectoral policies introducing new territorial impact assessment requirements as well as new coordination bodies. Changes in the objectives, geographical coverage and governance structures of instruments have led to fresh challenges and questions related to monitoring and to the allocation of responsibilities across administrative levels.

In some countries, developments can be seen mostly as a continuation of long-term strategic thinking and approaches to regional policy. This includes, [Austria](#), [Finland](#), [Italy](#), [Netherlands](#), [Poland](#), [Portugal](#), [Sweden](#) and [Norway](#). **Elsewhere, considerable re-thinking is apparent in at least one of the three strands mentioned above.** This includes the long-term review and reform of key regional policy instruments in [Germany](#) (the Regional Joint Task (GRW)) and [Switzerland](#) (the New Regional Policy (NRP)) (see section 3.2.3), as well as the [UK](#) with its ambitious goal of levelling up.

While policy developments have largely taken place based on long-term strategic thinking, the recent crises are likely to have accelerated, or at least supported, thinking in some





directions. This includes, for example, the emerging importance of 'anticipation' in regional policy and the role of skill supply and services of general interest for regional development.

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

3.1 Strategic objectives

A number of amendments to strategic and legislative documents setting the framework of regional policies in 2021-2022 were the result of ongoing policy thinking or were driven by domestic reviews and shifts in State Governments. Several countries, particularly where Cohesion Policy accounts for a substantial proportion of regional development spending, have launched national development strategies/plans that largely coincide with the 2021-27 Cohesion Policy period, and therefore are aligned with Cohesion Policy objectives. **Among EoRPA Member countries, significant strategic developments have taken place in Germany and the UK.** Elsewhere, countries have largely continued efforts in line with existing strategic directions.

While legal and strategic documents setting the framework of regional policies have a wide range of objectives, this section aims to identify distinctive groups based on the main driver or focus of the change/development. **Three distinctive directions of change can be identified, with a fourth group dedicated to relevant changes in sectoral policies:**

- Reducing territorial disparities
- Adapting regional policies to respond to societal challenges, including well-being
- Promoting urban and/or rural development
- Sectoral policies with explicit regional dimension or implicit regional impact

3.1.1 Reducing territorial disparities

In several countries, changes to strategic documents and Government statements **place growing territorial disparities among key challenges that national programmes need to tackle and set goals to promote development that ensures equal living conditions no matter where people live.** In some cases changes are made to thematic objectives, while in others they also concern the approach to policy planning and delivery. This includes consideration of the territorial dimension in investments, governance and monitoring arrangements, revealing a more holistic approach. These changes are evident mainly in a group of countries that have witnessed persistent and deep regional disparities.



Growing regional disparities are explicitly recognised as a societal challenge by the new Czech Government in its **Programme Statement**. The latter declares that the place where people live must not fundamentally affect the quality of education, access to health care, transport services and that **the Government will prevent further disparities among the regions from opening up**. Different regional needs, therefore, will have to be reflected when planning strategic investments.



The new Latvian **National Development Plan 2021-2027** reflects a certain shift in the mind-set of policy makers, with EU funds regarded as a 'booster' for growth rather than a means of 'existence' for local municipalities. Top priority, therefore, will be given to **long-term projects that will result in productivity increase** (especially in the public sector) and **improved export ability** of the private sector.



The **National Progress Plan 2021-2030** sets the goal of developing the territory of Lithuania in a sustainable and balanced way and reducing regional exclusion. In order to achieve this strategic goal, two progress objectives are envisaged: 1. geographically balanced economic development, taking into account the potential of each region; and 2. increased availability of jobs and making public services accessible to all.



The new White Paper, '**Levelling up the United Kingdom**', published in 2022, outlines plans to address economic and social disparities across the UK using a range of new and existing policies. The approach is based on five pillars: 1. medium-term 'missions' (targets); 2. reshaping central government decision making; 3. empowering local decision-making; 4. data, monitoring and evaluation at sub-national level; and 5. transparency and accountability.

Source: EoRPA research

3.1.2 Adapting regional policy to respond to societal challenges

Integrating objectives into regional policy that respond to societal challenges has been a growing trend across countries in Europe. Under this broad heading, in recent years, countries have included regional policy objectives related to low carbon economy, to sustainable development, and to well-being, driven by domestic and EU priorities. **Developments in 2021-22 see further commitments to align regional policy with societal challenges as well as efforts to translate these commitments into action.** This theme is discussed in more detail in Section 4.1.





The Coalition Agreement of the new German Government foresees a **more direct focus under the GRW (the main regional policy instrument) on themes of climate change/decarbonisation, digitalisation and innovation support** in order to stimulate new regional economic impulses and shape transformation. The potential inclusion of **regional services of general economic interest** is a reflection of changing economic conditions and factors important for future regional growth and development.



Following the adoption of the National Strategy for Sustainable Regional Development in 2021, the Swedish Government adopted a separate **Action Plan for 2022-24** to provide further detail on **the involvement of State actors in the implementation**. The Action Plan identifies three development areas for implementation where the Government is expected to take initiative and decisions: 1. **transition to sustainable regional development**; 2. **the importance of a territorial perspective**; and 3. **coordinated implementation** (see Section 4.1.2).



Scotland's **National Strategy for Economic Transformation** sets out a vision for a **wellbeing economy**, i.e. "a society that is thriving across economic, social and environmental dimensions, and that delivers prosperity for all Scotland's people and places, within environmental limits". The 2022 Strategy focuses on five areas: 1. **entrepreneurial people and culture**; 2. **new market opportunities**; 3. **productive businesses and regions**; 4. **skilled workforce**; 5. **a fairer and more equal society**.

Source: EoRPA Research

3.1.3 Promoting urban / rural development and urban-rural linkages

In a number of countries, developments in urban and rural areas are recognised as playing a significant role for existing regional/territorial disparities. Solutions are sought by strategic revisions/developments targeting either of these areas or their inter-linkages. These efforts are often part of the broader recognition that instruments need to be carefully tailored to different territorial needs.



Preparations are underway for a new **White Paper** due to be published in 2023, reflecting the ambitions of the new Norwegian Government. Early indications of emerging themes reveal: (1) **strengthening of district (rural) policy** and introduction of a pilot scheme for rural growth agreements; (2) **reinforcement of the broad scope of regional policy** coordinating territorial impact of sectoral spendings (education spending, digitalisation, security issues); (3) better **adaptation of instruments to different territorial needs**.



A range of actions have taken place in Poland with the overall aim of strengthening the territorial dimension in development policy. This includes a renewed **national Urban Policy**, launched in 2022, addressing key urban development challenges of sprawl, cross-municipal coordination, housing and climate crisis. Furthermore, **strategic thinking on urban-rural linkages is being informed by a recently concluded report with OECD**. The report argues that building urban-rural partnerships in Poland would help territories enhance the production of public goods, achieve economies of scale in public service provision and co-ordinate decisions where cross-boundary effects are important and increase the capacity of the partners.

Source: EoRPA Research





3.1.4 Changes in sectoral policies with regional implications

In several countries, strategic developments in sectoral policies were intended to contribute to regional development (for example through the dispersal of higher education away from the large university cities in Denmark³⁸) or to address the regional dimension of these policies (see Box 4).

Box 4: Role of regions in climate adaptation and in setting goals regarding skills



In 2022 the **Greek** Government adopted a national **Climate Law** with the aim of providing a cohesive framework for the transition to climate neutrality by 2050. **A national climate adaptation strategy and regional climate adaptation strategies will serve the transition goal.** The regional strategies will have a seven year horizon and will provide, among others, an analysis of objectives, assessment of expected climate changes and vulnerabilities of each region per sector and geographical area. They will also provide an assessment of the immediate and long-term impact of climate change and define sectoral and spatial priorities, proposing measures and actions for their implementation. At the local level municipalities will assume the responsibility of drafting Municipal Emission Reduction Plans by the end of March 2023.



A new **Government Bill in Sweden** underlines the importance of **cooperation and the role of the regions in setting goals regarding skills**, work and the assessment of needs in the public and private sectors. Further, *Tillväxtverket* (the national agency for economic and regional growth) and the Swedish National Agency for Higher Vocational Education have been assigned by the Government to work on skills validation with a view of setting up appropriate regional structures for skills supply. The regions have already received a total of SEK 20 million (€1.9 million) for the period of 2022-24 to work on these issues, including the set-up of effective structures for skills validation.³⁹

Source: EoRPA research

3.2 Regional policy instruments

The changes made to countries' portfolio of regional policy instruments over the past 12-18 months illustrate how the above policy trends are being put into practice. Specifically the changes seek:

- to ensure greater effectiveness in business support and fiscal equalisation (greater impact, increased flexibility, more sectoral targeting);
- to stimulate economic growth in weaker places and level-up development; and
- to strengthen the strategic approach and align with sustainability objectives.

Changes have been made in a number of regional policy instruments funded by domestic and Cohesion Policy budgets including fiscal equalisation systems that set the wider context for regional and local development. A number of new instruments have been devised in some countries while in others, long-term/multi-annual regional development instruments are under





comprehensive review. Table 1 summarises these developments. The past 12 month period has also seen an expansion of the spatial coverage of a number of instruments (see Section 3.2.4).

Table 1: Overview of developments in regional policy instruments

Rationale/objective of the change or the new instrument	Country	Key characteristic of the instrument	Type of development
Ensure greater impact, increase flexibility and extend sectoral targeting	FI, DE, GR CZ, DK, IT, SE	Business aid Fiscal equalisation system	Amendment of existing scheme
Stimulate economic growth in weaker places; Levelling-up	DE, IE, NO, UK,	Business, employment and skills support schemes with bottom-up/multi-level governance approach	New instrument
Integrate new areas of support considered to have economic potential; strengthen sustainability aspects	CH	Investments in business environment, institutional capacity, network-building, etc.	Under preparation/ review
Respond to societal challenges; strengthen the strategic approach and increase effectiveness;	DE	Business support in structurally weak place	Under preparation/ review

Source: EoRPA research

3.2.1 To ensure greater effectiveness in business support and fiscal equalisation

*In a number of countries, **key business aid schemes were adapted** to ensure greater impact, increase flexibility and to extend sectoral targeting.*

- Technical adjustments were introduced to the legal framework of the **Business Development Grant**, a key regional business aid scheme in **Finland**, including the widening of the eligible sectors (to exclude now only primary production in fisheries, agriculture and forestry) and the inclusion of an environmental dimension as a pre-condition for the awarding of the aid. The Grant will also be able to draw funds from



the Just Transition Fund (JTF) and Recovery and Resilience Fund (RRF) for specific purposes.

- The new **Multi-Annual Coordination Framework for the GRW** in **Germany** came into effect at the beginning of 2022. The new Framework **expands the funding criteria and in some cases the funding envelope in a number of areas** including: road expansion measures, connecting industrial parks to cross-regional road networks; training measures covering personnel costs, where changes aim to stimulate more uptake by SMEs; integrated regional development concepts, particularly in order to encourage greater participation by citizens and companies.⁴⁰
- The **Development Law**, the main national regional policy instrument in **Greece**, has been amended, following an earlier evaluation that suggested a limited effect on investments and job creation. The revision of the law in 2022 **introduced a thematic rather than horizontal approach, establishing 13 aid schemes** related to the objectives of digital and technological transition of businesses, green transition, economies of scale, promoting innovative investments and Industry 4.0 technologies, robotics and AI, strengthening employment with specialized personnel, supporting new entrepreneurship, strengthening less favoured areas and areas included in the Just Transition Plan, strengthening tourism and competitiveness in high value added sectors.
- As part of the strategic development plans⁴¹ of the eight Special Economic Zones (SEZ) in **Italy**, **various infrastructural projects are envisaged for each SEZ**, which receive a dedicated share of funding. These would be focused on three intervention areas - "last mile" connections, logistics and ports resilience. Another new dimension has been introduced to the **Smart & Start Italia** aid scheme that provides interest-free loans to innovative start-ups across Italy. It is now possible to earmark funding to **support the creation of female enterprises**. In both cases, interventions will be funded by the RRF.

*Changes have been made, or are being discussed, in **fiscal equalisation systems** to address identified weaknesses*

- In **Czechia**, the tax budgeting system is under discussion. Identified weaknesses relate to the lack of motivation for municipalities and cities to support the business environment, to the high dependency of regional budgets on national transfers and to the calculation method that does not seem to reflect important indicators such as population growth. **The State Government has committed to an update of the tax budgeting system of regions.**
- With broad political agreement, as of 2021, **revised equalisation measures were introduced in Denmark essentially transferring funds from the "richest" to the "poorest" municipalities**, and additional government funding was given to the municipalities of up to DKK 6.5 billion (€874 million) in 2021.⁴² As part of the agreement, a particular allocation is being made to vulnerable peripheral and island municipalities of DKK 1.5 billion (€201 million) and an allocation of DKK 0.6 billion (€80 million) to vulnerable municipalities in the capital region. In total, DKK 1.4 billion (€188 million) were relocated to the country's 30 peripheral municipalities.
- The **Polish** government is planning to introduce initiatives to stabilise and strengthen the finance of local government units in 2022. This is in response to the introduction of tax reforms under the 'Polish Deal' which will substantially decrease revenue from income taxes. Solutions have been introduced under which local government units will receive





additional funds if, in the financial year, their tax revenues fall below the reference level. This should reduce the susceptibility of local governments to market fluctuations and legal changes. The introduced changes are the first stage of the reform of the revenue system of local government units. The government will continue conceptual work in this regard.

- A Parliamentary Committee has been tasked with providing a review of the fiscal equalisation system in **Sweden**, expected to be finalised by 3 May 2024.⁴³ The review has been launched with a view to developing the system in line with the changes in the society (including lessons learned during COVID-19) and following the conclusions of two audit reports of the National Audit Office. The audit reports noted that the **equalisation system is not fully able to compensate for all the cost differences between the municipalities** (e.g. due to their different population structures or geographical conditions), and as such **the system does not allow the delivery of similar service levels across the country**.⁴⁴ The audit report of 2020 notes further concerns, such as **the system may slow down the growth ambitions of the municipalities**, and therefore recommends further analysis on how income equalisation affects growth at the local level.⁴⁵

3.2.2 *To stimulate economic growth in weaker places and level-up development*

In a number of countries, new support instruments were introduced with the main aim of stimulating economic growth in weaker places via business, people and skills investments. These also include support to pilot schemes such as rural growth agreements and pilot projects, which apart from traditional development goals, also have objectives to draw lessons for future adaptations of the funding system. In terms of policy design and delivery, substantial elements of bottom-up, participatory and multi-level governance approaches are visible across various examples.

- Introduced in 2021, a **new federal programme called 'Future Region'** (*Zukunft Region*) was introduced in **Germany**. While it has a traditional objective to **increase the economic strength** of structurally weaker regions, the scheme has additional purposes related to drawing lessons applicable for regional development more widely and serving as a preventive regional policy tool (see Box 5).
- The **Irish** Government announced the launch in 2022 of **nine Regional Enterprise Plans** covering every region in the country. Funding of €180 million is made available to implement the Plans whose **ambition is to boost regional development via enterprise and employment growth** until 2024. The Plans contain agreed strategic objectives for enterprise development, accompanied by time-bound actions that deliver the objectives. Each of the nine Plans have been developed by Regional Steering Committees, including the Enterprise Agencies, Enterprise Ireland and IDA, Local Enterprise Offices, Local Authorities, Regional Assemblies, higher and further education bodies. Projects will be funded through Enterprise Ireland under the previously existing Regional Enterprise Development Fund and the Regional Enterprise Transition Scheme (launched July 2021).⁴⁶
- A pilot scheme for **rural growth agreements** is being launched in **Norway** in 2022. The scheme is set up as a development and growth instrument to strengthen business and settlements in 'district' (rural) Norway. These will be long-term agreements between the State and district municipalities with a particular **focus on support for business**



development. The pilot will include one to two agreements per county and initial budget is provided for three years.

- Several new funding programmes have been launched in the **UK** under the 'levelling up agenda', managed by UK central Government under a nationwide framework. These include the **UK Shared Prosperity Fund** (see Box 5), which is intended to replace EU Structural Funds in the UK from 2022, and the **Levelling Up Fund**, which was launched in 2021.

Box 5: 'Future Region' Programme in Germany and UK Shared Prosperity Fund (UKSPF)



The aim of the *Future Region* programme in **Germany** is to increase the economic strength of structurally weaker regions throughout the country and takes an implementation oriented, bottom up approach. Funding is allocated on a competitive basis for pilot projects based on two-step approach (development phase and implementing phase). The programme is designed to have a 'model' character meaning that it should allow lessons to be drawn from projects that could be applicable for other regions and provide insight into how further to adapt the new nationwide federal funding system in future. Most funding will be targeted on the assisted GRW areas but up to ten percent of funding could be spent elsewhere in an approach designed to support more preventative regional policy.

The **UK Shared Prosperity Fund** focuses on three priorities: communities and place; local businesses; and people and skills. Within these three headings, lists of nation-specific interventions have been published.⁴⁷ Alongside these interventions, funding will be ring-fenced for a national adult numeracy programme called Multiply. The Fund will be delivered using local authority areas, grouped into combined authorities where available in England, and (potentially) regional-level geographies in Scotland and Wales. All places across the UK will receive a conditional allocation from the UKSPF, using a **methodology based on previous Structural Funds receipts with some needs-based adjustments**. Local areas had to prepare investment plans detailing how they intend to spend the funds and submit them to the UK Department of Levelling Up, Housing and Communities.

Source: EoRPA research

3.2.3 To strengthen the strategic approach and align with sustainability objectives

Finally, reviews aiming to take stock and re-design long-term regional development instruments are taking place in Germany and Switzerland.

- A **wide ranging reform of the GRW, the country's main regional policy instrument**, is underway in **Germany**, considered to be the most fundamental and through review of the instrument since its introduction in 1969. At its core, the GRW will remain the main instrument of German structural and regional policy, but the aim of the review is to make it more strategic and effective, in particular by integrating climate-related and sustainability principles, necessary for its future proofing. **A key element under discussion is the potential broadening of support to include regional services of general economic interest.** Aspects of this type of service provision already exist within the GRW,





however, the reform may strengthen the focus on 'soft' locational factors which increase the attractiveness and strength of the regional economy, local self-government and other support measure such as the rural and urban development. Once the reform is completed, which is likely to be early 2023, **funding rules, eligibility conditions and priorities will be amended to reflect changes including potentially more explicit support for decarbonisation, energy efficiency and sustainability.**

- **Preparations for the subsequent period of the main Swiss regional policy instrument - the New Regional Policy (NRP) 2024-31 - are underway.** The process includes a series of online events involving a wide range of stakeholders, including all cantonal NRP bodies, as platform to exchange ideas about the future direction of the NRP. The findings are used to develop a first draft of the NRP bill 2024-31, which will be debated in Parliament in 2023 and then approved in terms of content and budget. **Discussions so far indicate that, while the current NRP approach will be largely continued, there will also be changes which can be summarised under three headings:** (1) a loosened export-orientation (vis-a-vis possibility to finance projects important for the local economy with limited export-orientation); (2) a strengthened sustainability dimension; and (3) increased infrastructural support under certain conditions. Operationalisation of these changes include the development of new criteria for project eligibility (under 1 and 3) and identification of support measures for regional partners (under 2).

3.2.4 Changes in geographical targeting/expansion of instruments

While the spatial coverage of many regional schemes is shaped by EU State Aid rules, under a number of regional policy instruments – especially territorial tools – spatial targeting and coverage is decided domestically. In 2021-2022, expansion in the areas covered by such instruments, as well as expansion in the use of spatial targeting, have taken place. Examples include new targeting at NUTS2 level, instead of solely local level, through Integrated Territorial Investments in [Bulgaria](#) and the expansion of the 'Catching up settlements' programme with additional 145 settlements in [Hungary](#). Coverage of territorial instruments will also expand in [Poland](#) in the 2021-27 Cohesion Policy period, including an increase in ITIs from 27 to around 90 by extending coverage to smaller cities and marginalised areas. Another example is the [Austrian](#) Rural development programme 2021-27, whose territorial focus is slightly amended so that measures in small towns can also be supported. Projects can be implemented in municipalities with up to 30,000 inhabitants or in the rural parts of municipalities with more than 30,000 inhabitants, but only municipalities or parts of municipalities with a population density below 150 inhabitants per km² can be included. This means that many small towns can be involved which play a crucial role for their surrounding rural areas. **This could also allow for useful stimuli for urban-rural linkages** (if combined with Cohesion Policy based measures, such as the ERDF-funded city-regional fora in Upper Austria). Changes are also apparent in cases where countries maintain complementary domestic regional aid maps. In [Germany](#), for example, the new 2022-27 GRW map includes coverage of so-called 'D' areas which are designed to provide the potential for graduated regional development support to areas with less serious, but still important, structural problems.



3.3 Institutional frameworks

Institutional arrangements have evolved or are evolving in a large number of countries in 2021-22, with more significant developments in Norway and the Netherlands and more minor adaptations or ongoing discussions in Austria, Finland, Sweden, Poland, Portugal, Scotland and Wales (UK), among EoRPA Member countries. There are multiple drivers for these changes and adaptations including:

- **the emergence of new instruments like the RRF**, requiring efforts to promote synergies;
- **increased scrutiny of the territorial impact of sectoral policies**, leading to new mechanisms for policy analysis and impact assessment;
- **an increase in place-based elements in regional policy**, leading to the creation/involvement of additional structures in regional policy delivery; and
- **political reasons**, driven by new State Governments, leading, among others, to ministerial reshuffling.

Developments are visible in three dimensions of regional policy implementation reflected broadly in either the expansion of regional policy delivery systems or the rationalisation and integration of existing structures.

1. **Allocation of policy responsibilities** at national and across administrative levels (in AT; BG; CY; EE; FR; LT; NO; PT; RO)
2. **Coordination mechanisms**; (in CZ; HU; SE; Sco (UK); Wal (UK))
3. Mechanisms for **managing/improving the performance** of policy (CZ; FI; EE; LV; NO; PL, SE)

Table 2: Overview of developments in regional policy institutional frameworks

Rationalisation Expansion of RP delivery system	Country examples	Drivers
Expansion	CY and EE: mergers between local governments	Administrative reform;
	PT, BG, RO: decentralisation	Political commitment;
	NO: reversal of municipal mergers	Place-based elements in CP
Rationalisation	NL: provinces projected to play more important role in policy in-lieu of soft governance arrangements	Controversy of initial decision & new government
	AT; PT; FR; LT: national-level ministerial reorganisations;	Complexity of informal regional governance
Expansion	CZ: Committee on Regional Policy; SE: Government Forum; UK: Regional Economic	Better coordination in policy design and





Rationalisation	Partnerships (SCO) & Corporate Joint Committees (Wal) NL: stronger national control and simplification of the governance systems	implementation, vertically and horizontally
Expansion	CZ & DE: assessment of the territorial orientation (CZ) and spatial impact (DE) of financial support; NO: district policy impact assessment on all reforms FI: study on regional development scenarios for 2040; PL: strategic pilot project 'Advisory Support Centre', second edition	Better coordinate the territorial impact of sectoral policies; reductions in financial resources allocated to regional policy; RP future proofing; Increasing sub-national capacities;

Source: EoRPA research

3.3.1 Allocation of policy responsibilities at national and across administrative levels

Some revisions in regional policies have been related to the administrative level at which policy is delivered. These include changes that have resulted in an '**expansion**' of the regional policy delivery system – including allocation of new responsibilities to the regional/local level, creation of new bodies or increase in regional policy funding managed at regional level - and others that have led to a '**rationalisation**' represented by closure of regional/local policy bodies, a shift of tasks between bodies, or the concentration of responsibilities in a smaller number of entities.

Sub-national level mergers [Rationalisation/Expansion]

A local government reform has been agreed in [Cyprus](#) in 2022, to enter into force in 2024. It anticipates the amalgamation of some municipal and rural areas, establishes local and district clusters and transfers to them responsibilities related to different public services. The [Estonian](#) Government also foresees the implementation of incentives (payments between €500,000 to €1.5 million) for voluntary mergers between local governments. The measure is anticipated to take place from 2025. Conversely, some of the previous county and municipal merger decisions in [Norway](#) have been, or will be, reversed and elements of the revenue system that worked to the detriment of municipalities that do not merge will be removed. The reversal follows recent elections in Norway and the consideration that some of the mergers were controversial.⁴⁸ The Government has also indicated that it would like to strengthen the role of the county councils and consider transferring responsibilities from the county governors to the county councils.



Ministerial mergers [Rationalisation]

Following the appointment of a new Government in [Austria](#), the Federal Ministry for Agriculture, Forestry, Regions and Water Management has been downsized, losing portfolios for tourism and digitalisation. Traditional policies with a territorial dimension, however, remain under this Ministry, including both regional policy (including Cohesion Policy) and rural development, as part of agriculture portfolio. Also following elections in [Portugal](#), the Ministry of Planning has been discontinued. Secretary of State for Planning now functions under the Ministry of Presidency of the Council of Ministers, charged with Public Administration and the EU funds, including ESIF and the RRF. Additionally, the areas of regional development and spatial planning / urban development have been aggregated under the Minister for Territorial Cohesion. Amendments have also been made in France, with the [French](#) Government merging the previous Ministry for Territorial Cohesion and Relations with Sub-National Authorities and the Ministry of Ecological Transition into a Ministry of Ecological Transition and Territorial Cohesion. Finally, reorganisation of regional policy responsibilities within the Ministry of Interior in [Lithuania](#) took place with objective to streamline procedures following decentralisation of regional policy implementation in 2020.

Decentralisation [Expansion]

Decentralisation discussions and processes have been ongoing in a number of countries with more centralised governments, including [Portugal](#), [Bulgaria](#) and [Romania](#). The process in Portugal, which has been underway for some time, has continued with the public discussion in 2021-22 focussing particularly on the areas of health, education and social action, although there have been some delays compared to the original timeline. In parallel, two additional institutional processes are adding to the complexity of the discussion on territorial organisation and governance (see Box 6).

Progress has been relatively slow in the case of Bulgaria and Romania, and the main expectation is that changes in governance of Cohesion Policy 2021-27 could potentially accelerate the decentralisation process. In the Romanian context, this is being driven by the appointment of Regional Development Agencies (RDAs) as Managing Authorities under eight Regional Programmes. In Bulgaria, the Regional Development Councils will be appointed as Intermediate Bodies for the implementation of Integrated Territorial Investments (ITI) at NUTS2 level. In this role, they acquire a number of new responsibilities related to the development of the strategic basis as well as to the absorption of funding that is, for the first time, assigned at the level of NUTS2 planning regions.





Box 6: Institutional changes in Portugal - regionalisation, decentralisation and redefinition of the domestic political-administrative map

Along with the decentralisation process, **the Portuguese Government has reaffirmed its commitment to reopen the debate on regionalisation** and move forward to the referendum on the matter in 2024. Consequently, debates on what competences could be transferred to the (potential) regional level will become increasingly important. These debates would concern not only the transfer of competences from the State to the regions, but also from municipalities to the regions, considering that the regional level might be the most appropriate tier for the execution of certain competences. In this context, the ongoing process of decentralisation is intertwined with these future debates.

The regionalisation debate is also closely linked to the ongoing **revision of the NUTS 2/NUTS 3 map**, aiming to create two new regions (the Península de Setúbal and the Ribatejo e Oeste), and the **potential redefinition of the domestic political-administrative map**. The NUTS revision will be relevant not only in terms of accessing ESIF the in the post-2027 programme period, but also in the context of the regionalisation debate and the eventual creation of administrative regions at NUTS 2 level, as these processes are closely interlinked and need to be aligned.

Source: EoRPA research

From soft cooperation areas to formal administrative territories [Rationalisation]

While earlier policy agendas in the **Netherlands** have favoured planning in functional regions and soft governance arrangements, the recent revision of the National Environmental Planning Strategy (NOVI) favours the Dutch provinces as the main actors in the implementation of NOVI. Provinces are projected to play a more important role in the composition and coordination of policy packages that implement diverse national directives. This trend **acknowledges the complexity of informal regional governance**. The expectation is that provinces are more prepared for policy implementation and can thus conduct implementation more efficiently and speedy.

3.3.2 Coordination mechanisms

Changes falling under this group have the objective of expansion and rationalisation but related to coordination mechanisms. **The expansion of regional policy delivery systems has occurred in cases where additional coordination bodies or stronger procedures for ensuring coordination have been created while changes leading to simplification of coordination mechanisms or closure / merger of existing coordination bodies indicate rationalisation.**



In **Czechia**, a **Committee on Regional Policy** at the national governmental level will be established as a platform for Ministry representatives of relevant sectors to discuss the potential territorial impacts of sectoral strategies. **In addition, coordinators of economically and socially threatened territories were established in each Regional Permanent Conference** to gather suggestions for strategic initiatives that could be taken up by the National Regional Development Strategy 2021+.



A new **Ministerial position for Regional Policy and EU Funds** was created in the Prime Minister's Office in **Hungary** in 2022 to oversee nearly all Managing Authorities responsible for 2014-2020 and 2021-2027 programmes as well as the RRF National Authority and the central coordinating function.



In the **Netherlands**, the Rutte IV government (from late 2021) has maintained an emphasis on cooperation between national and regional governments. However, recently published policy documents, such as the coalition agreement and a letter on spatial planning to parliament, indicate that the government will **focus more strongly on national control and will strive for a simplification of institutional frameworks for vertical cooperation**.



The Government Forum has been largely regarded as a successful coordination mechanism in **Sweden**. It has gradually evolved since it was first established in 2007 to become a more formalised dialogue and cooperation platform for 2022-30 focusing on long-term and strategic issues which are of importance to sustainable regional development. The Sustainable Regional Development Forum for 2022-30 has formally become part of the Government Offices. The Forum continues to foster dialogue and cooperation at the political (Political Forum) and civil service (Civil Service Forum) levels.



In **Scotland**, **Regional Economic Partnerships** (REPs), collaborations between local government, the private sector, education and skills providers, enterprise and skills agencies and the third sector, are working to identify economic strategies for their areas and accelerate inclusive economic growth. In **Wales**, four new **Corporate Joint Committees** (CJCs) (regional corporate bodies) have been set up to encourage greater collaboration between Welsh local authorities, and to develop Strategic Development Plans and Regional Transport Plans. **The City and Regional Growth Deals may also be subsumed by CJCs in the future.**

Source: EorPA Research

3.3.3 Performance management tools

The final set of developments have aimed at managing or improving the performance and effectiveness of regional policy, as well as preparing it for future developments. There are a number of domestic driving factors ranging from the need to respond to assessment findings to commitment to better coordinate the territorial impact of sectoral policies and build sub-national capacities. Stimuli for improving the effectiveness of regional policy also continue to relate to reductions in financial resources allocated to regional policy in some countries. Examples under this group take various forms, from efforts to strengthen evaluation systems, enhance capacities and multi-level governance to future-proofing via scenarios building.

- The Ministry of Regional Development (MRD) in **Czechia**, has emphasised an **increase in the analytical capacities and the management of the strategic orientation** of regional policy within the Department of Regional Policy. This is in line with the Ministry's continuous efforts to strengthen the management of the territorial dimension in





delivering domestic and EU programmes. As part of these efforts, an amendment of the Regulation on State budget involvement in the financing of programmes is underway which should include **an assessment of the territorial orientation of financial support**.⁴⁹

- Given the increasing polarisation of the regional structure in **Finland** and as part of the future planning, the Ministry of Economic Affairs and Employment commissioned a **study on regional development scenarios for 2040**. While the scenarios are not intended to predict the exact nature of the future, they enable discussions on possible options likely to contain elements of each scenario.⁵⁰ Key issues to be addressed by the scenarios relate to ensuring **world-leading knowledge concentrations** and finding the **most suitable role for each region** within this, as well as ensuring **smart adaptation and good living conditions** including in areas that fall outside the top-performing areas.
- Evaluation and monitoring is specifically mentioned in the Coalition Agreement 2021-25 of the new **German** Government, stating that **all federal funding programmes will be regularly evaluated and their spatial impact assessed using standardised data. The results will be published in periodic reports to show progress towards equivalent living conditions**. This monitoring will be a binding basis for the further development of the funding programmes. Identification of effective indicators will be necessary under the GRW reform in light of the changes and expansion of its scope, and this is expected to be challenging.
- To ensure progress is made to achieve major objectives of 2021-2027 programme period, especially in the aftermath of administrative territorial reform, a new Municipal Law is underway in **Latvia**. One of the key innovations that it aims to introduce is the **creation of Citizens Councils** so that the population can be actively involved in the work and decision-making of local municipalities. These are intended to take a form of collective consultative institutions that will ensure interests of the residents in the municipal council are duly represented.
- Among the themes that are being discussed in preparation for the new White Paper in **Norway** is the **introduction of district policy impact assessment on all reforms**.
- The implementation of the strategic pilot project - an Advisory Support Centre - in **Poland** showed that there is a need to further support of local government partnerships. Therefore, a new edition of the project called CWD Plus was launched in 2022. Its aim is to strengthen the competences of municipalities and counties to manage strategic local development in socio-economic partnerships, including the preparation of strategic documents for ITI instruments or supra-local development strategies which are required when applying for EU funds. **An additional element of the new project will be the creation of a knowledge and experience exchange system for partnerships of local government units** participating in the project, as well as for regional self-governments.
- The **Swedish** Government is due to address recommendations of the Swedish National Audit Office regarding the state's efforts in delivering regional development policy.⁵¹ **The review of the Audit Office makes specific recommendations related to enhancing clarity, coherence and long-term perspective in the State's governance and organisation efforts which affect cooperation between levels of government and coordination with sectoral policies. The review also recognises the difficulty in evaluating the impact of the policy.** The budget heading 19 (regional policy funding) provides limited funding in relation to the overall objectives, and it is difficult to have an oversight of the activities undertaken via other policy areas related to regional development. Nonetheless, the review notes that the government is making efforts to



produce more impact evaluations, although it is not yet possible to assess the outcome of these evaluations.

Conversely, in **Estonia**, the discontinuation of the strategy focused on regional development means there will be no dedicated monitoring system specifically targeting regional development. This has the potential to create a situation where regional development is less significant at a political level and could become more marginal in its importance.

4 MANAGING TRANSITIONS AND BUILDING RESILIENCE THROUGH REGIONAL POLICIES

4.1 Integrating sustainability and green transition in delivery systems

In recent years, many countries in Europe have adopted sustainability and climate objectives in the legal basis or strategic documents framing their regional policies. Translating these objectives into the institutional and implementation mechanisms of regional policy can be challenging for a number of reasons including: competing policy objectives and trade-offs; coordination challenges across administrative levels; and lack of capacities or lack of political will. This process also requires time to agree on new rules and procedures and set up governance and coordination mechanisms, as well as monitoring and control systems. In reality, this is a continuous process likely to require regular revisiting of policies, plans and projects as climate and socio-economic conditions evolve.⁵²

While countries in Europe have adopted sustainability and climate objectives in a broad sense into domestic regional policies, there are different interpretations of what these objectives mean on the ground and different timelines to achieve them. In the Netherlands, for example, the strategic approach is framed around the concept of regional well-being, while in Sweden and Finland, work is strongly aligned with the UN Sustainable Development Goals (SDGs). **A key issue for regional policy is how to integrate sustainability and climate objectives in a way that they contribute to regional competitiveness, growth and development** (what has been termed by some countries as sustainable development with an 'opportunity oriented' approach). Identifying this nexus between ecology, society and economy, however does not necessarily fit into traditional thinking about growth and competitiveness. It may require a recognition of new factors and drivers of growth and even a rethinking of growth objectives. This direction of travel also has important consequences for institutional frameworks in terms of coordination efforts but potentially also in terms of new governance arrangements allowing more territorially tailored approaches and broader stakeholder engagement.

This section aims to look at various approaches national level regional policies have taken to integrate these objectives in regional policy delivery systems. The aim is not to provide a comprehensive list of all sustainability and green transition measures but rather an analysis of





key approaches and changes that were/are being made to regional aid schemes as well as to institutional arrangements at national level among EoRPA Member countries.

4.1.1 *Key regional aid schemes at national level*

Main domestic and EU co-funded regional aid schemes in EoRPA Member countries stimulate investments in business development, innovation, infrastructure, internationalisation and job creation, combined with networking, knowledge exchange and cooperation support in a number of cases. Among these schemes, three general approaches to integrate sustainability and green objectives can be identified. Annex I provides a more detailed overview of the instruments and their environmental/sustainability components.

1. **Selection/award criteria** are used to ensure that supported actions address relevant sustainability goals and societal transitions. The SME Innovation Stimulus Region under Top Sectors Policy in the Netherlands, for example, identifies societal challenges in the overall assessment framework in order to target innovations towards 'societal missions'. The assessment framework of the UK's Levelling Up Fund includes criteria such as how bids will deliver NetZero carbon emissions and improve air quality. Instruments that receive funding primarily through Cohesion Policy (e.g. the Business Development Grant in Finland) have also adopted criteria to comply with EU sustainable development principles and ensure that selected investments promote certain environmental aspects. Current GRW rules related to environmental protection in Germany also fall under this category.
2. **Certain sectors or technologies are included as priority areas to stimulate the creation of new green businesses and jobs.** In some cases, these are specifically targeted under interventions supporting R&D and innovation, for instance under Italy's Fund for Sustainable Growth promoting technologies that make it possible to face the "societal challenges". Elsewhere, these are part of broad business support areas, for instance in schemes in UK (e.g. low-carbon/renewables in Scotland's Enterprise Areas), Poland (biotechnology and equipment used for the production of fuels and energy from renewable sources), Portugal (energy and environment).
3. In several cases, **instruments have dedicated support to help existing industries to undergo green transition by reducing or bringing to zero their footprint.** Examples include: improvements to energy and environmental efficiency in the port and industrial areas of the SEZ in Italy; and UK Shared Prosperity Fund which provides targeted support for SMEs to undertake new-to-firm innovation, adopt productivity-enhancing, energy efficient and low carbon technologies and techniques.

4.1.2 *Institutional arrangements*

The inclusion of environmental and sustainability objectives in regional policy may also require the re-design and re-thinking of institutional frameworks as the deployment and alignment of resources and actions at all levels is required. This raises questions about what responsibilities each layer of government should have and how to collaborate, how regional policy efforts



should work along other (sectoral) policies and coordinate results, and how to facilitate an efficient and transparent implementation, including at the sub-national level.

New thinking and arrangements are visible in governance frameworks and these can be seen in three particular areas: (1) defining roles, responsibilities and coordination mechanisms; (2) defining most relevant geographical scales; and (3) building capacities at sub-regional level.

- (1) To clarify roles and responsibilities**, the **Swedish** Government adopted a separate Action Plan for 2022-24 to provide further detail on the **involvement of State actors in the implementation of National Strategy for Sustainable Regional Development**. Such a Plan is considered necessary as many of the implementation efforts under the Strategy take place in the regions, but the national level also has important role to play. The Action Plan identifies three specific development areas where actions are to be taken by the national government and under each of these three areas, specific tasks are outlined. In the area 'Transition to sustainable regional development', for example, the Government is responsible for identifying and managing potential synergies and conflicts between the regional development policy and other policy objectives. Under the area related to the 'Importance of a territorial perspective', the Government needs to consider the potential of every geographical area based on their specific conditions, while the area 'Coordinated implementation tasks' foresees that the Government shall ensure coordination between state authorities, and well-functioning cooperation and dialogue between the state authorities, regions and municipalities;
- (2) Questions related to the spatial scale at which environmental and sustainability measures need to be applied are logical given the often territorially differentiated character of associated challenges and opportunities and the fact that these are not bound by existing administrative borders.** Devising policy solutions at new geographical scales is, however, a challenging process. In **Austria**, for instance, the regional level, understood as the territorial level between municipality and *Land*, has gained large significance in many respects in recent years. In a report aimed to inform policy thinking on this, regions are recognised as 'central intermediation hub between EU objectives and the local level'.⁵³ The report also identifies manifold dilemmas that characterise work at the regional level and calls for improving the balance between autonomy and control (incl. in funding terms). Policy thinking related to identifying ways in which regions can be empowered to contribute to a sustainable spatial development is ongoing, but what this would mean in practice remains to be seen. In the **Netherlands**, recent institutional changes also signify the complexity in defining governance arrangements, with recent revisions projecting provinces (rather than functional regions) to play a more important role in the composition and coordination of policy packages that implement diverse national directives, including the National Environmental Planning Strategy.
- (3) To increase the capacity of the regions** to integrate sustainability in business support, project funds, commercial service and Cohesion Policy, the **Swedish** Government has financed an assignment called **Paths to sustainable development** with budget of SEK 108 million (€10 million).⁵⁴ The assignment has two key purposes: (1) to support efforts that lead to integrating economic, environmental and social





sustainability within the regional growth work and Cohesion Policy; and (2) to develop methods and learning through exchange and learning sessions.

4.2 Building resilient territories

While the accessibility to, and quality of, public services has been long-standing thematic focus in many regional policies (depending on distinctive welfare systems), its importance has been increasing with the growth of within-country inequalities, magnified territorial pressures and exposed vulnerabilities in recent crises. The territorially differentiated impact of megatrends⁵⁵ – globalisation, demographic and climate change - requires further re-thinking of the scale and nature of required public services or services of general interest⁵⁶ (SGI) across territories. As a result, the scope of challenges and opportunities regional policies need to address through investments in public services appears to be expanding and attention given to this field can be expected to grow in the future.

Regional policy measures in the field of services of general interest have traditionally fallen under the larger objectives of inclusive growth and social cohesion, equal living conditions and territorial justice. Additionally, they have had growth and competitiveness rationale and have been integrated in business support schemes with the aim of attracting investment. Their geographical scope has been predominantly focused on economically or geographically disadvantaged areas. **Ensuring that the design and delivery of public services meets the varied needs of citizens and territories represents an increasing challenge for policymakers. This challenge has been compounded by severe financial constraints in weaker regions and rural and remote areas, due to the Great Recession (2007-09) and the concentration of wealth in places that benefit most from globalisation⁵⁷.** Service constraints have also been driven by increasing demand, in part due to demographic ageing and, more recently, by the Ukrainian refugee crisis, which impacts certain regions and social groups more than others. The evolving cost-of-living crisis threatens to increase levels of poverty and social exclusion among deprived households and in lagging regions⁵⁸, affecting those who do not have sufficient income to resort to alternative and higher priced services. **In addition to affordability and quality, newer issues are also emerging.⁵⁹** These include the increased interest in the new digital channels for service delivery (related to health, work, etc.) after the pandemic which may enhance accessibility across territories but also hide risk to isolate already disadvantaged communities and regions who lack suitable digital infrastructure. Globalisation gives further impetus for re-thinking the factors that make a territory appealing for investors and talent, requiring new reflections on the mix of location factors to be supported by regional policies and SGI. Finally, the responsiveness and reliability of governments in delivering public services and anticipating new needs as they arise is strongly connected to public trust, which is critical for weathering future trade-offs and challenges, such as recovery from COVID-19 and coping with climate change.⁶⁰



Given the increasing scope of the challenges and opportunities in investing in SGI, this section provides an overview of five key objectives that national regional policy instruments pursue when including actions enhancing availability and affordability of public services and quality of life. Focus is placed on some recent revisions and policy thinking.

4.2.1 To equalise living conditions across national territories through solidarity/fiscal equalisation mechanisms (FEMs).

Nearly all European countries operationalise, under different models, solidarity/fiscal equalisation mechanisms to allow sub-national authorities to provide similar levels of basic public services according to territorial needs and differences in fiscal capacity, with additional transfers made in some countries on the basis of regional policy goals (e.g. in Germany to structurally weak areas).⁶¹ While FEMs are not an instrument of regional policy, there are important interrelations between the two as FEMs can help to alleviate challenges related to regional disparities (e.g. related to income differences) and to regional economic growth by reducing differences in location factors. Despite their potential to ensure affordable and quality public services, these systems are complex and depend on the degree and model of redistribution. Adaptations in FEMs have aimed to address weaknesses and tensions in the provision of sufficient fiscal scope and compensating differences, while not limiting growth potential in more prosperous areas. Further vulnerabilities when it comes to the flexibility and resilience of FEMs have been highlighted by the pandemic which led to a collapse in tax revenues and sharp increases in expenditure for certain public services.⁶² As a result, several revisions are underway in a number of countries (see section 3.2.2).

Ensuring fiscal capacity and the provision of quality services at local level is also linked to municipal mergers and the formation of new groupings of municipalities, as well as to decentralisation processes. A number of institutional changes across Europe in 2021-22 include this type of change (see section 3.3.1).

4.2.2 To alleviate disadvantages linked to geography

There have been long-standing programmes to support the provision of public services to remote, isolated and sparsely populated territories, especially in the Nordic, but also in some other countries (e.g. in France, Portugal, Italy). While many of the decisions on such programmes are now transferred to the counties, the **Norwegian Government** continues to support local grocery shops in peripheral areas that are important hubs in remote communities and often provide additional services (via MERKUR initiative). Similarly, in **Portugal**, the **outermost regions** of the Azores and Madeira face difficulties in terms of extra costs of doing business and maintaining services of general economic interest due to geographical remoteness and insularity. In response, measures supporting health and social services in particular have been integrated in programmes financed via Cohesion Policy. **In Italy, lack of adequate services is highlighted as a key problem in 'internal areas' witnessing a progressive**





population decrease.⁶³ Ensuring that inhabitants of these areas have access to essential services (local public transport, education, social and healthcare services) is part of the strategic approach to re-populate and revitalise these areas, as specified in the National Strategy for Internal Areas, supported via Cohesion Policy in 2014-20 and 2021-27.

4.2.3 To promote investment attractiveness in all or structurally weak regions

Support for services of general interest has also been included in regional aid instruments in order to attract private investments. This has normally been in the form of different infrastructure support related to business needs and to basic living and employment conditions. **According to recent studies by OECD, however, identifying policy levers to more effectively attract specific target groups (including investors, talent, and visitors) in the new global environment requires a closer examination of subnational drivers of attractiveness. OECD identifies six domains going beyond economic attractiveness, including some that are also linked to services of general interest such as residents' well-being and land and housing** (see Box 7). Similarly, case studies also identify that the role of soft factors (e.g. business-friendly administration, quality of life, recreation and leisure facilities) in attracting (foreign direct) investment has been increasing.⁶⁴

Box 7: OECD's regional attractiveness dashboard

The OECD's indicator dashboards are an innovative way of measuring a region's position in globalisation as they consider global engagement beyond purely economic factors and offer a detailed picture of a region's international connections (Business, Knowledge, Human, and Infrastructure). The attractiveness dashboard brings together around 60 indicators, including fourteen reference indicators used to graphically represent attractiveness across six individual domains at the regional (TL2) level:

- Economic attractiveness: e.g. Innovation & Entrepreneurship, and Labour Market
- Connectedness: e.g. Transportation, Logistics and Digitalisation
- Resident well-being: e.g. Health, Education, and Social cohesion (as per quality of government index)
- Natural environment: e.g. Environment and Natural capital
- Visitor appeal: e.g. Tourism and Cultural capital
- Land and housing: e.g. Usage and Affordability

Source: <http://t4.oecd.org/regional/Issues-note%20region-attractive-new-global-environment.pdf>

A rethinking regarding what kind of services of general economic interest should be supported under regional policy is also visible in recent policy discussions and measures. The new **German** Coalition Agreement included the request for an investigation into how the GRW can integrate a new area of support for regional services of general economic interest. This is a reflection of changing economic conditions and factors important for future regional growth and development (e.g. related to mismatch between those seeking employment and the opportunities available, and the scarcity of working age adults). A potential broadening of support is now being considered for inclusion in the GRW, which brings, however, new



challenges related to balancing priorities and aligning allocation of responsibilities across governmental levels within a federal constitutional system.

4.2.4 To promote territorial cohesion

A significant number of policy measures which include investments in public services aim to address goals of territorial cohesion and wellbeing and respond to regional policy objectives towards balanced regional/territorial development. Thematically, a wide range of services are supported from basic infrastructure (roads, sewage) to health, education, housing and well-being.

In countries where the provision of good-quality, accessible and affordable public services has been a nationwide challenge, measures generally encompass all regions. This is visible in commitments made for the 2021-27 Cohesion Policy period in Romania (local projects in the area of basic infrastructure), Latvia (affordable housing and enhanced mobility) and Lithuania. In the **UK**, the objectives, missions and policies for 'Levelling Up' anticipate measures to spread opportunities and improve public services, especially in those places where they are weakest. Four thematic areas are outlined – education, skills, health and wellbeing. In other cases, **measures target specific geographies.** In **Poland**, these are the municipalities threatened with permanent marginalisation⁶⁵ (to improve access to basic public services) and Silesia (to improve the organisation of public services). In **Portugal**, measures are integrated in the revised in 2020 Programme for Enhancement of the Interior with activities under the headings of closer public services, closer healthcare, closer culture and connectivity in the interior.

Policy responses in this group also try to leverage economies of scale in public service provision (in Poland, Lithuania and Latvia). Urban-rural linkages and functional areas are considered to have a key role as they can help the provision of joint services between urban and surrounding rural areas. In **Poland**, the Ministry of Development Funds and Regional Policy has been working on a dedicated project with OECD on **urban-rural linkages** in 2021-22.⁶⁶ The project analysed functional linkages in terms of services, communications, economic relationships, commuting and labour market flows. There are, however, challenges in bringing together data and expertise on urban and rural issues and in developing consensus on the rationale for developing stronger links.

Anticipatory and forward-looking approaches are also emerging including the smart adaptation approach in Finland. This approach is focused on demographic developments and in particular the declining population and the changing age structure, observed in two thirds of the municipalities in the country's mainland. While the approach is still being established, **the main aim is to develop new strategies, plans and policies to prepare for the population decline and manage the changes in regions and municipalities.** Smart adaptation is about securing and developing services and quality of life regardless of the growth





opportunities and, while it is not a synonym for place-based development, the two approaches are very much intended to be seen as complementary.⁶⁷

4.2.5 To get closer to citizens

In several countries, policy responses have been developed with the explicit objective of bringing public (administrative) services closer to all citizens, no matter where they live. Two prominent examples include recent initiatives in France and Estonia.

- The **French instrument Maisons France Service echoes the Government's desire to bring public administrative services closer to users, improve their quality and simplify procedures.** The instrument was announced in the context of the Yellow Vests movement in 2019. The network labelled 'France services' is made of multi-purpose reception desks allowing users to carry out various administrative procedures in a single location (e.g. related to health, family, retirement, law, housing, tax, job search, digital support). **While the instrument has an overall objective to offer a wide range of services as close as possible to the territories, particular attention is paid to rural areas and priority neighbourhoods identified under the urban policy (*Politique de la Ville*).** To ensure its operation, each structure receives an annual operating grant of €30,000, financed equally by the national fund for regional planning and the national France Services fund.
- In **Estonia**, State Houses (*riigimaja*) are being established across the country since 2019 with the aim of creating in total 19 (at least one in every county centre outside Tallinn and Tartu) by 2026 and state investment of €42 million. These Houses provide public services and host several national authorities and public organisations.⁶⁸ **The aim of these establishments is to improve the accessibility of state services in the counties, to improve communication between the state and the general population and, overall, to bring the state closer to people.** It is hoped that the State Houses will improve regional development through the improved provision of services, the greater involvement of people in decision-making and the fact that public officials can better understand the local situation and challenges,

5 CONCLUSIONS AND REFLECTIONS

Regional policies in 2021-22 have been operating in a challenging context, defined by the recovery from COVID-19, by the conflict in Ukraine and by the cost-of-living crisis. All these external shocks reveal heterogeneous regional implications based on sectoral specialisation, value-chain connections and labour market interlinkages. In some countries, the underlying pattern of pre-existing territorial inequalities continues to play a major role in the uneven spatial impact of these crises.

In the context of these global developments, a number of key changes in regional policy over the past 12-18 months can be noted:

- The pandemic has not caused immediate major changes in the strategic thinking on national regional policies. The **potential of the long-term opportunities for regional**



policy, however, continues to stimulate high policy and political interest although concrete policy responses to leverage these potentials are more limited.

- Developments in regional policy strategic documents and objectives have shown **largely a continuation of long-term strategic thinking**. Where developments are taking place, these emphasise the reduction of territorial disparities, the adaption of regional policies to respond to societal challenges, and the promotion of urban and/or rural development.
- In line with developments in strategic thinking and pandemic related implications, many countries are **reassessing their portfolio of regional policy instruments**. Multiple fiscal equalisation schemes are being reviewed or have been amended, at least partially in response to lessons learned from COVID-19. Newly devised instruments show a strong anchoring in place-based approaches and wide stakeholder participation, while others have a pilot/experimental character. Where comprehensive reviews of regional policy instruments are taking place, climate and sustainability principles are being integrated. Many territorial instruments have expanded their spatial coverage.
- Most institutional changes are leading to the **expansion of regional policy delivery systems** in terms of allocation of responsibilities, funding, and coordination mechanisms. Strengthening of national control and simplification of institutional frameworks for cooperation are, however, also visible in limited number of cases. Institutional shifts are marked by a **strong emphasis on managing policy performance and coordination of territorial and sectoral policies**.

Regional policy thinking and developments in recent years have been visibly related to sustainability and green objectives. Diverse national approaches which aim to translate these objectives in concrete regional policy responses introduce a new understanding of what regional development should be about. These approaches pursue a nexus between economic growth and competitiveness objectives and wellbeing, inclusion and environmental sustainability. At the national level, a strong integration of sustainability principles is evident in key regional aid instruments providing innovation incentives. These approaches vary from linking the desired innovation and R&D with eligibility criteria or prioritising areas/sectors that would lead to investments in green innovations. Sustainability and environmental criteria are also tied to the receipt of business support in an effort to ensure that new business investments lead to a more environmentally sustainable economy and that businesses adapt their production systems and infrastructure to achieve low/zero carbon footprint.

One question that emerges is the extent to which all territories could take advantage of available sustainability/green incentives. The innovation promotion instruments, for instance, rely greatly on the strength of the innovation capacity including high quality research systems, entrepreneurial thinking, high-skilled workers/people with tertiary education – endowments which are distributed unequally across countries and regions.⁶⁹ While such approach can increase profitability, it could lead to a concentration of green innovations and thus transition in those regions that possess certain competitive advantage, which are often the economically prosperous ones.





Solutions to trade-offs also appear to be needed in order to integrate sustainability and environmental considerations more holistically. Integrating sustainability and environmental considerations is not always a horizontal principle in regional aid instruments and there are fields of support where the integration of such considerations is more limited (e.g. promotion of internationalisation and investment attraction, measures aiming at re-developing areas in industrial transition and strengthening the economic base of lagging regions). This is particularly visible in instruments which have multiple objectives but where the sustainability principle/objective is only applied to a sub-section of them.

Resolving such trade-offs would rely on evaluations of the effects of sustainability and environmental principles. This, however, is an area with limitations as the **short and long term nature of effects may differ and empirical evidence tends to focus mainly on the short-term due to data availability.**⁷⁰ In addition, the academic literature raises concern about how sustainability and green objectives relate to the concept of territorial cohesion and lagging regions.⁷¹ Given the different starting point of each region, the argument revolves around the risk that a growth and competition driven approach at national level (the green growth discourse) could lead to a continuation of spatial inequalities. In this sense, there is potential scope to widen the growth-driven GDP logic. This thinking is in line with wider calls in recent years to expand indicators and measures of progress and wellbeing beyond macroeconomic indicators.⁷²

Regional policies have also seen an increasing number of instruments which integrate support measures for services of general interest. In addition to more traditional frameworks that have been based on solidarity principles and other measures ensuring equal living conditions, the purpose that SGI are intended to play in regional policies is becoming more ambitious. The thematic scope and spatial coverage of support has extended to address the spread of territorial inequalities to new geographies associated with the so-called 'places that don't matter'⁷³. The more prominent role of public services also relates to novel developments in regional policy. This includes the integration of new principles guiding the policy implementation such as wellbeing and sustainability. Increasing emphasis is also being given to the fact that certain services – housing, skills, healthcare - are key for the (future) development and resilience of regions.

Meeting the demand of SGI across these multiple, territorially different and evolving needs requires a re-thinking of the design and delivery of services of general interest and the role of the national level. Innovative approaches that leverage community and digitally based services need to be stepped up together with governments support building linkages and coordination mechanisms at sub-national levels. These may require changes in institutional arrangements as well as in regional policy instruments, including their spatial targeting. National governments will also play an important role in ensuring that new solutions are equally distributed across regions or that they are well-targeted given the unforeseen impacts of external shocks and megatrends. In particular, monitoring, anticipation and experimentation



are important aspects to integrate into policy design and as a responsibility of the national level.

Finally, while consideration of how to integrate measures relating to SGI specifically with the objective of facilitating remote work is not yet explicitly visible, it is noticeable that there are policy instruments that could integrate such enabling conditions in the future. These include measures that target better connectivity in rural, insular or sparsely populated areas. Other relevant policies and instruments include those targeting an increase in the attractiveness of smaller cities and towns, or of structurally weak areas (be that from a wellbeing or an economic rationale), as they may benefit in the long-term from potential changes in living preferences.





Annex I: Key regional aid schemes/instruments and their green component

Instrument	Green/environmental/sustainability component	Spatial focus
Finland		
Business Development Grant	A new awarding criterion added in consideration of environmental aspects, in line with EU environmental requirements.	All areas
Regional Transport Grant	-	Largely regions located in the north and east of the country, but parts of west Finland also eligible
Germany		
Joint Task for the 'Improvement of the Regional Economic Structure' (GRW).	<p>Reform process foresees the integration of climate-related and sustainable principles in the priorities, funding rules and eligibility conditions.</p> <p>Current GRW rules also mention environmental related conditions for funding including:</p> <ul style="list-style-type: none"> Firms are eligible for funding when the investment project puts them into a position of exceeding national and EU norms for environmental protection or where these norms don't exist, result in environmental improvement (Article 36:1-3 of GBER). Under commercial infrastructure support, costs of environmental protection measures in connection with the renewal of brownfield sites. 	Designated by regional aid map - structurally weak regions, including domestic 'D' areas
Italy		
Development Contracts	Eligible projects relate to three types of investment programme: industrial development, environmental protection , and development of tourism activities. Subsidies are provided for environmental protection in less developed areas (2016); environmental sustainability and circular economy (2020) and for renewables and batteries (2022)	All areas
Special Economic Zones (ZES)	As part of the strategic development plans ⁷⁴ of the eight ZES, various infrastructural projects are envisaged, including digitalisation and strengthening of logistics, green urbanisation and improvements to energy and environmental efficiency in the port and industrial areas of the ZES. Funding is envisioned from NRRP – number of interventions and funding likely to vary by ZES.	Less developed regions, located in South Italy
Fund for Sustainable Growth (previously Fund for Technological Innovation)	The Fund has three purposes (promote strategic research, strengthen production structures and promote internationalisation) and within the first one , it supports projects via subsidized loans aimed at introducing significant technological advances through the development of enabling technologies or technologies that make it possible to face the "societal challenges" defined in accordance with the Europe 2020 strategy. ⁷⁵	All areas
Netherlands		





SME Innovation Stimulus Region under Top Sectors Policy (MIT)	Since 2020, the Knowledge and Innovation Agendas (KIA), which couple key technologies, societal challenges and R&D needs , are used as assessment framework for applications. ⁷⁶ This is in line with the new focus of the national innovation policy (formulation of 25 societal 'missions') and reorientation of the instrument from the sectoral Top Sectors structure towards the <i>mission-driven</i> approach. (MIT offers funding to SMEs for feasibility studies, innovation advice and R&D cooperation, and innovation vouchers).	All areas, support varies depending on matching co-funding provided by provinces
Region Deals	A policy instrument that adopts a wellbeing approach to territorial development. Termed as 'broad welfare', the Deals consist of integrated approaches to address regional wellbeing and societal challenges. They use newly established partnerships between national ministries and regional (public) stakeholders. The Region Deals have explicit economic, social and environmental development objectives as they adopt the people-planet-profit principle. The budget includes a national contribution of €950 million for the years 2018-2022. Funding rules include the use of an integrated approach, agreement on concreted action, public-private partnership (with a preference for triple-helix), robust regional governance, new development trajectories (not filling 'funding gaps'), and a minimum of 50 percent co-funding.	All areas
Norway		
Regional Risk Loan	The scheme promotes economic development in line with Norway's regional development objectives, which include a long-standing commitment to green and sustainable development.	Designated areas by the regional aid map
Poland		
Programme for the support of investments of considerable importance to the Polish economy	-	Designated by regional aid map – focus on structurally weak regions, plus a location criterion
Regional investment aid scheme for the competitiveness of SMEs under the regional programmes 2014-2020	Among the expected results of the scheme is the development of a highly innovative segment of the economy generating 'green' jobs and increased implementation of digital technologies. Eligibility criteria encourage new business development, including companies relying on new technologies.	Designated by regional aid map – focus on structurally weak regions
Special Economic Zones	Priority investments in wide-range of sectors/technologies including biotechnology and equipment used for the production of fuels and energy from renewable sources .	All areas
Portugal		
Business Innovation and Entrepreneurship Incentive Scheme	The schemes aim to support a number of priority areas such as business innovation and competitiveness, internationalisation, entrepreneurship, research and development, and among those are also energy and environment .	Designated by regional aid map (NUTS 2 mainland regions)
Research and Technological Development Incentive Scheme		





SME Qualification and Internationalisation Incentive Scheme		
Sweden		
Regional Investment Support	Not explicit, however, the scheme needs to contribute to the implementation of the regional development strategies and the wider Government objectives, which have strong sustainability focus.	Designated areas by the regional aid map – focus on the sparsely-populated areas, but also selected rural areas in the south of Sweden included
Transport Grant	Not currently, however, a recent assessment of the climate aspect by <i>Tillväxtverket</i> proposes a new bonus/disincentive system in order to reward for climate-efficient transport choices and to reduce the transport grant in the event of non-climate efficient transport. The proposal takes into consideration the fact that access to climate-efficient transport is different in the aid areas. <i>The proposal would require a change in GBER.</i>	Four most northern regions
Switzerland		
New Regional Policy (NRP)	While the new period of NRP is under preparation, there is intention to strengthen its sustainability dimension. As an economic policy instrument, the NRP intends to use the requirements of sustainable development in an opportunity-oriented manner for regional economic development. This will require identification of synergies at the interfaces between economy, environment and society, addressing conflicts transparently and proactively, thereby minimising risks. Operationalisation of the concept in the NRP implementation programmes is foreseen for the period 2024-27. Support measures for the cantonal NRP departments and/or actors in the regions are to be identified as well.	a) Regions with specific development problems and potential of mountain and rural areas and b) regions active in European territorial cooperation
Tax Credits in Application of Regional Policy, supporting the creation and restructuring of existing jobs	-	Areas with structural weaknesses, but focus on the 93 regional centres in these.
United Kingdom		
UK Shared Prosperity Fund	UKSPF will focus on three priorities: communities and place, local businesses, and people and skills, and under the second one there is targeted support for SMEs to undertake new-to-firm innovation, adopt productivity-enhancing, energy efficient and low carbon technologies and techniques.	All areas
Levelling Up Fund	Projects should be aligned to and support net zero goals , including those set out in the UK government's net zero strategy and sector-specific plans such as the Heat and Buildings Strategy where relevant. The assessment framework includes criteria such as how bids will deliver NetZero carbon emissions and improve air quality. Sustainability and green measures should be incorporated into procurement plans.	All areas, but priority is given based on needs estimated according to an index





Selective Financial Assistance (SFA) in Northern Ireland	-	throughout Northern Ireland
Enterprise Zones (England, Wales and Northern Ireland) and Enterprise Areas (Scotland)	<p>The Enterprise Areas in Scotland are sectorally focused on the industries viewed as having the greatest potential to boost economic growth: life sciences, general manufacturing and growth sectors and, especially, low carbon/renewables.</p> <p>In Wales, Enterprise Zones are organised along sectoral lines, focusing on: financial and professional services; advanced manufacturing; aerospace; energy and environment; and ICT sectors.</p>	Located at specific sites across the countries.

Source: EoRPA research





Notes

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EoRPA RESEARCH

This paper has been prepared by Neli Georgieva at the European Policies Research Centre (EPRC) for the European Regional Policy Research Consortium, EoRPA. In 2021-22, EoRPA partners are:

Austria	Bundesministerium für Land- und Forstwirtschaft, Regionen und Wasserwirtschaft (Federal Ministry for Agriculture, Forestry, Regions and Water Management), Vienna
Finland	Työ- ja elinkeinoministeriö (Ministry of Economic Affairs and Employment), Helsinki
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United Kingdom	Department for Business, Energy & Industrial Strategy, London Scottish Government, Glasgow

The EoRPA research programme is directed by Professor John Bachtler, Dr Carlos Mendez and Ruth Downes. The European Policies Research Centre gratefully acknowledges the financial support provided by the members of the EoRPA Consortium.

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