FINAL REPORT

Methodology and Indicators
Used by Member States to determine eligible regions for Regional State Aid for 2000-2006: An Inventory of Choices and Summary of Efficiency analyses

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PART I: Methodology and Indicators

1. INTRODUCTION

Regional aid is by far the largest category of State aid in the European Union, representing more than half of all State aid granted to industry and services. The sharp increase in regional aid measures makes it even more important to review their impact and assess whether the methodology and indicators used are the most appropriate for determining eligible regions in the context of an ever changing market, a changing socio-economic reality and an expanding European Union.

To this end, a thorough analysis of the methodology and indicators used by Member States was carried out in order to examine their efficiency.

This part of the study focuses on reviewing the choices (of methodologies and indicators) made by Member States for the period 2000-2006 with respect to regions to be assisted and aid intensities applied. It is an inventory of choices made by Member States. Section 2 describes and assesses the methodologies used, section 3 describes and assesses the indicators used, while section 4 offers some general conclusions.

2. METHODOLOGIES

In assessing the effectiveness of methodologies used by different Member States we used the following criteria:

- whether the methodology is objective;
- whether it can measure disparities in the socio-economic circumstances of the regions in question;
- whether it is presented in a clear and detailed way;
- whether its merits can be easily assessed.

Below is a summary of the different methodologies used by Member States:

<table>
<thead>
<tr>
<th>Austria (AT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria: Methodology for proposing assisted areas under Article 87(3)(a)</td>
</tr>
<tr>
<td>One region was selected for assistance under Article 87(3)(a), the NUTS II region of Burgenland, which represents 3.47% of the population.</td>
</tr>
</tbody>
</table>

Austria: Methodology for proposing assisted areas under Article 87(3)(c)

The regions proposed to benefit form the above derogation were selected on the following basis:

- Six NUTS III regions based on a methodology of a combination of indicators that measure economic potential and structural risks. The represent 24.06% of the population;
- 17 regions for consistency with the Structural Funds.

1 In the analysis of methodologies and indicators we summarise only those proposals that were approved by the Commission. Any proposals that were amended or not accepted by the Commission are not included in this study, unless specifically mentioned.
Austria: Aid intensities

Aid intensities range between 12.5% and 20% NGE.

On the basis of the above description of methodology and aid intensities applied in the case of Austria, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used:**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔</td>
<td>Geographic unit is NUTS III, as specified in the Guidelines.</td>
</tr>
<tr>
<td>✔</td>
<td>Choice of regions based on specific methodology and indicators.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Can measure disparities²</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>✔</td>
<td>Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.</td>
</tr>
<tr>
<td>✔</td>
<td>Geographic unit selected is NUTS III and reflects the socio-economic reality of the country.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clear and detailed</th>
<th>Yes.</th>
</tr>
</thead>
</table>

| Merits can be easily assessed | ✔ | It is clear why this methodology is appropriate. |

**Belgium (B)**

Belgium: Methodology for proposing assisted areas under Article 87(3)(c)

The regions proposed to benefit form the above derogation were selected on the following basis:

- The majority of regions were selected as indicated in sections 3.10.1, 3.10.2 and 3.10.3 of the Regional Aid Guidelines and belong to only one type of geographic unit, the **NUTS V level**. The reasons for choosing this geographic unit instead of the NUTS III level (as required by the Guidelines) are the following:
  - Belgian NUTS III regions (“arrondissements”) were geographic units created in the 19th century. Their use as administrative units became marginal. Only the three principal regions (NUTS I level), the provinces (NUTS II level) and the communes (NUTS V level) play a role in the elaboration and implementation of regional economic policies in Belgium today;
  - Since their creation, NUTS III regions (“arrondissements”) reflected not only the administrative reality, but also the socio-economic reality of the country. However, in their actual form, the “arrondissements” do not any more reflect the present socio-economic reality of the country;
  - The average size of the Belgian NUTS V zones is almost five times bigger than the average Community size;
  - Finally, there is no intermediary geographic unit between NUTS II level and NUTS V level in Belgium. The country does not have a level IV unit, neither “travel-to-work” areas as in the case of the UK or “basins d’emploi” like in France;

² Refers to the Regional Aid Guidelines, point 3.10.3, where it is stated that regions must conform to NUTS level III or, in justified circumstances, to a different geographical unit. Only one type of geographical unit may be submitted by each Member State. In addition, the regions chosen must show significant disparities compared with the average of the potential 87(3)(c) regions of the Members State concerned.
A small number of regions were selected on the basis of section 3.10.5 of the Guidelines, i.e. consistent with the Structural Funds (SF). These are four zones/groups of zones which belong to the approved Objective 2 map for Belgium.

In total 11 groups of regions of NUTS V level were selected and represent 30.9% of the total population of Belgium (consistent with the established population ceiling).

8 out of 11 groups of regions form compact zones, i.e. have a population of over 100,000, while the remaining three with a population below 100,000 adjoin regions eligible for regional aid in France and can therefore be regarded to form compact zones (consistent with point 3.10.3, second indent of the Guidelines).

All the selected NUTS V region, with only three exceptions show significant disparities (half of the standard deviation) in comparison with the average of the potential Article 87(3)(c) regions in Belgium for at least one of the indicators used (see below section on indicators). The three exceptions that do not present significant disparities were included in the regional aid map in order to guarantee the compact character of the adjoining groups of zones in which they belong. Belgian authorities will not assign regional aid to these three communes (their population though is taken into account in order to calculate the population ceiling).

Belgium: Aid intensities

For the Article 87(3)(c) areas, different aid intensities were proposed:

- For large establishments, the aid intensities are between 10% and 20% NGE as shown below:
  - 10% NGE in nine NUTS III level regions (within the eligible NUTS V level regions) which have both a higher per capita GDP/PPS and a lower unemployment rate than the respective Community average;
  - 15%, 17.5% and 20% NGE, in the other eligible zones belonging to the rest of NUTS III level (within the eligible NUTS V level), which is consistent with the general Guidelines for Article 87(3)(c) regions;

- a supplement of 10% gross for SMEs, in consistency with the Guidelines provision.

On the basis of the above description of methodology and aid intensities applied in the case of Belgium, we can deduct that all assessment criteria have been met successfully, as indicated below:

Checklist of methodology used:

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Objective justification of the choice of geographic units.</td>
<td></td>
</tr>
<tr>
<td>✓ Choice of regions based on five objective indicators.</td>
<td></td>
</tr>
</tbody>
</table>
Can measure disparities\(^3\)  Yes.  
- Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.
- Only one geographic unit is selected (NUTS V level) and it is well justified why it reflects the socio-economic reality of the country.
- The regions chosen show significant disparities in comparison with the average of the potential 87(3)(c) areas, with only three exceptions which in any case are not included in the eligible zones for regional aid under 87(3)(c).

Clear and detailed  Yes.

Merits can be easily assessed  √  It is clear why this methodology is appropriate for Belgium.

**Germany (D) (2000-2003 period)**

**Germany: Methodology for proposing assisted areas under Article 87(3)(a)**

Germany selected eligible areas on the basis that those areas have a GDP/PPS of less than 75% of the Community average. These represent **17.16%** of the total German population.

**Germany: Methodology for proposing assisted areas under Article 87(3)(c)**

The regions proposed to benefit form the above derogation were selected on the following basis:

- 41 labour market regions and the city of Berlin were selected by Germany. **Labour market regions** were selected instead NUTS III regions as the homogeneous geographical unit for the German regions. They represent **17.7% of the total German population** and are considered by Germany to be the regions with the **highest regional policy priority**. The reasons for this choice are highlighted below:
  - labour market regions represent a statistical unit which identifies an economic zone in terms of **functionality**, rather than administrative boundaries;
  - NUTS III areas correspond to the level of district (Kreis) and economic problems to be targeted with regional aid policy do not, in general, correspond to administrative borders in the case of Germany;
  - moreover, the indicators selected (see below section on indicators) were difficult to obtain and would lead to a distorted picture if measured on the level of NUTS III;
  - labour market regions, as a geographical unit, best reflect economic reality in the form of commuter patterns and work-place accessibility;
  - this geographical unit represented a functionally independent region with a maximum of internal interdependence and a minimum of external interdependence;
  - finally, a labour market region is at least as big as, and usually bigger than, a NUTS level III region;

- A particular case is the **labour market region of Berlin**, which consists of the city of Berlin and its surrounding area, which belongs to the **Land of Brandebug** and entirely

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\(^3\) Refers to the Regional Aid Guidelines, point 3.10.3, where it is stated that regions must conform to NUTS level III or, in justified circumstances, to a different geographical unit. Only one type of geographical unit may be submitted by each Member State. In addition, the regions chosen must show significant disparities compared with the average of the potential 87(3)(c) regions of the Members State concerned.
surrounds Berlin. Brandenburg meets the eligibility criteria under Article 87(3)(a) of the EC Treaty. However, Germany decided to propose only the city of Berlin (not the entire Brandenburg area) as an Article 87(3)(c) area, and to treat the whole labour market region as if it were an Article 87(3)(c) assisted area. This means that not all the potential for granting aid will be used in the Brandenburg area surrounding Berlin and this condition has been accepted by both the Commission and Germany;

- The choice of which labour market regions would receive regional state aid under Article 87(3)(c) was based on a synthetic indicator, based on four sub-weighted indicators (see below on indicators).

Germany: Aid intensities

**Checklist of methodology used (Germany):**

| Objective | Yes.  
|-----------|----------------------------------|
|           | ✓ Labour market regions were identified by commuter patterns and accessibility analyses, as functional economic areas.  
|           | ✓ The statistical units obtained in this way best reflect the regional problems that need to be dealt with by regional policy measures.  
| Can measure disparities | ✓ Labour market regions selected show significant disparities (half of the standard deviation) compared with the average of the potential Article 87(3)(c) regions in Germany, in respect of the indicators used in the method.  
|           | ✓ Say more about aid intensities when I have the info  
|           | ✓ Only one geographic zone was selected, which best reflects regional disparities.  
| Clear and detailed | Yes, Germany presents its methodology in a clear and detailed fashion.  
| Merits can be easily assessed | ✓ Yes, with some reservations.  
|               | ✓ This method of a synthetic indicator applied on labour market regions rather than NUTS III areas is appropriate for selecting areas to be assisted.  
|               | ✓ However, there is concern that the region surrounding Berlin (i.e. the surrounding area of Brandenburg), which is eligible for assistance under Article 87(3)(a), will only be treated as Article 87(3)(c) area, and therefore, the aid potential would not be fully used. As a consequence, aid intensities in those areas (i.e. parts of Brandenburg that belong to the labour market region of Berlin) will not exceed those approved for Berlin.

Denmark (DK)

**Denmark: Methodology for proposing assisted areas under Article 87(3)(c)**

Denmark is split into 275 “communes”, which in turn are grouped into 59 groups of communes. Denmark selected 20 groups of communes and 14 small islands for assistance under Article 87(3)(c) on the following basis:

- Denmark selected groups of “communes”, instead of NUTS III level, as a more appropriate geographic unit for selecting assisted areas for regional aid. Communes were selected as they constitute a labour market zone and the population depends on these zones of economic activity. The communes are thus an economic unit which reflects more realistically the structure of economic activity in Denmark;
• In addition, small islands were selected on the basis of point 3.10.3, second indent, of the Guidelines, where islands are exempted from forming compact zones (population of at least 100,000) as they are characterised by similar geographic isolation.

• Areas were selected using the weighted average of five quantitative indicators and represent 17.1% of the total population (consistent with national ceiling set by the Commission).

**Denmark: Aid intensities**

For the Article 87(3)(c) areas, different aid intensities were proposed, ranging between 10 and 20% NGE for the groups of regions and 10% NGE for the small islands.

On the basis of the above description of methodology and aid intensities applied in the case of Denmark, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used (Denmark):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groups of communes were identified as the most appropriate geographic unit reflecting regional problems.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Can measure disparities</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Groups of communes and small islands show significant disparities (half of the standard deviation) compared with the average of the potential Article 87(3)(c) regions in Denmark, in respect of the indicators used in the method.</td>
<td></td>
</tr>
<tr>
<td>Only one geographic zone was selected, which best reflects regional disparities.</td>
<td></td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Clear and detailed</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark presents its methodology in a clear and detailed fashion.</td>
<td></td>
</tr>
</tbody>
</table>

| Merits can be easily assessed | Yes. |

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**Greece (EL)**

**Greece: Methodology for proposing assisted areas under Article 87(3)(a)**

**All of Greece is eligible** under Article 87(3)(a) on the basis that all NUTS II areas have a GDP/PPS of less than 75% of the Community average.

However, in order to rank the different aid intensities for the different regions, Greece proposed to divide the country in **four NUTS II areas**, as follows:

- **Zone D** comprising NUTS III regions, industrial zones of a NUTS III region, and islands both from NUTS II and NUTS III regions and a zone across the land borders of Greece;

- **Zone C** comprises all NUTS II and NUTS III regions (except Zone D and NUTS III regions where the two main cities of Greece are, namely Attica where the capital Athens is and Thessaloniki) facing serious unemployment problems and a reduction of their active population. Zone C is defined every two years on the basis of national data and a ministerial decision which cannot be amended during that two-year period);

- **Zone B** comprising parts of the NUTS III areas of Attica and Thessaloniki and all other areas that do not fall under Zones D, C or A;

- **Zone A** comprising the rest of NUTS III regions of Attica and Thessaloniki.
Greece: Aid intensities

For the NUTS II areas under Article 87(3)(a) Greek authorities proposed the following maximum aid intensities:

- For those NUTS II areas with per capita GDP/PPS of more than 60% of the Community average, the maximum aid intensity is 40%;
- For all other areas covered under Article 87(3)(a), maximum aid intensities are 50%.

Checklist of methodology used (Greece):

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>√ Assisted areas under Article 87(3)(a) were defined on the GDP/PPS basis.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Can measure disparities</th>
<th>√ All of Greece is an Article 87(3)(a) area and as such, disparities are measured mainly on the GDP basis.</th>
</tr>
</thead>
<tbody>
<tr>
<td>√ However, for defining zone C, Greek authorities also used unemployment and population growth for measuring disparities.</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Clear and detailed</th>
<th>Very much so.</th>
</tr>
</thead>
</table>

| Merits can be easily assessed | √ Method for selecting areas and aid intensities consistent with Regional Aid Guidelines. |

Spain (ES)

Spain: Methodology for proposing assisted areas under Article 87(3)(a)

Spain selected **eleven NUTS II areas** on the basis that those areas have a GDP/PPS of less than 75% of the Community average. This represents 58.4% of the total population in Spain and is consistent with the national ceilings for assisted population coverage approved by the Commission.

Spain: Methodology for proposing assisted areas under Article 87(3)(c)

The criteria for selecting areas to be assisted under Article 87(3)(c) comprise:

- A methodology based on one geographic unit and four quantitative indicators (see below section on indicators);
- The potential inclusion of the zone in Objective 2 of Structural Funds.

More specifically:

- Spain selected 120 “comarcas” for regional aid out of a total of 352. It proposed the “comarca” (a group of municipalities) as the **appropriate geographic unit** as a basis for regional development policy, for the following reasons:
  - The “comarca” falls between NUTS levels III and V, which are regarded as inadequate in terms of regional development in Spain;
  - On one hand, NUTS level II corresponds to provinces defined in the 19th century for administrative reasons and do not any more reflect the socio-economic reality of the territory;
  - On the other hand, NUTS level III regions are very heterogeneous both in terms of population and size;
  - In addition, NUTS level V is very small to serve as a basis for regional development policy;
  - The advantages of the “comarca” are that, on one hand, it is almost always a group of municipalities and therefore larger than NUTS level V, while, on the other hand, it is smaller than NUTS level III and can therefore overcome its limitations. In addition, the
“comarca” includes not only the population but also the economic activities of the territory;
- Although “comarcas” have existed for centuries, they were only developed as an area for economic, social and political intervention since the establishment of Autonomous Communities under the Spanish Constitution in 1978. In fact, territorial organisation and regional policy form part of the competencies of those Autonomous Communities;
- Apart from the fact that the “comarca” is used for regional economic development interventions, it also formed the basic geographic unit of the regional aid map for Spain for the period 1995-1999.

- **Two areas for consistency with the Structural Funds Objective 2 areas.** These include zones of the NUTS level II areas of Baleares and the Rioja, in consistency with point 3.10.3, of the Guidelines. The rationale for selecting them includes the following:
  - These form compact zones either because they have a population higher than 100,000 or because they are whole islands. In addition, they form compact zones not only when the proposed zone coincides with a “comarca” but also when the Objective 2 zone is part of a “comarca” adjoining assisted “comarcas”.
  - These parts of “comarcas” have a correlation between population and economic activity which is similar to that of the whole “comarcas” to which they belong. As a result they are not areas with whose density of enterprises is higher than the population density.

Spain: Aid intensities

For the NUTS II areas under Article 87(3)(a) Spanish authorities proposed maximum aid intensity of 50% NGE.

For the Article 87(3)(c) areas, a ceiling of 20% NGE in general was proposed, with some exceptions:
- Some NUTS level III municipalities where maximum aid intensity will be 10%;
- One NUTS level III area, where maximum aid intensity will be 30%, because of low population density (point 3.10.4 and 4.8 of the Guidelines);
- One NUTS level III area which used to be eligible under Article 87(3)(a) and can therefore benefit from a gradual reduction of aid intensities from 40% NGE to 20% NGE over four years;
- Finally, all the above ceilings will be raised by 10% gross for SMEs.

On the basis of the above description of methodology and aid intensities applied in the case of Spain, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used (Spain):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>“Comarcas” (groups of municipalities) were defined using an objective analysis of their pertinence for regional development policy interventions.</td>
<td></td>
</tr>
<tr>
<td>Can measure disparities</td>
<td>✓</td>
</tr>
<tr>
<td>Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.</td>
<td>✓</td>
</tr>
<tr>
<td>Aid intensities take into account the seriousness and intensity of the regional problems addressed when examined in a Community context.</td>
<td>✓</td>
</tr>
<tr>
<td>As “comarcas” are currently used for regional development policy reasons, their use instead of the statistical units NUTS III level is justified and consistent with Guidelines.</td>
<td></td>
</tr>
<tr>
<td>Clear and detailed</td>
<td>Very much so.</td>
</tr>
</tbody>
</table>
France: Methodology for proposing assisted areas under Article 87(3)(a)

France selected **four NUTS II regions**, which consist of the islands of Guadeloupe, Guyane, Martinique and Reunion. The population in these areas represents 2.8% of the French population. These areas were chosen on the basis of their GDP/PPS which is below 75% of the Community average.

France: Methodology for proposing assisted areas under Article 87(3)(c)

France selected two groups of regions on the following basis:

- **169 employment zones** (out of 348 in France), representing 32.3% of the French population, using a methodology based on one statistical geographic unit and five quantitative indicators. The use of employment zones, instead of NUTS level III regions, is justified as follows:
  - Employment zones represent a single, homogeneous geographic unit (consistent with Guidelines, point 3.10.3);
  - Employment zones guarantee a correlation between job location and home location;
  - French employment zones have a significant size (more than 100,000) and therefore also comply with the criteria of compact zones;
  - The selected regions also present significant disparities (half the standard deviation) in comparison with the potential French regions eligible under Article 87(3)(c);
- A further **14 employment zones**, in consistency with Structural Funds, Objective 2. They represent 1.6% of the total French population.

France: Aid intensities

For the NUTS II areas under Article 87(3)(a) the French authorities proposed maximum aid intensity of 65% NGE, with a 10% gross supplement for SMEs.

For the Article 87(3)(c) areas, different aid intensities were proposed:

- 20% NGE for all employment zones, except;
- 15% NGE for employment zones or parts of zones that benefited until 1999 from a aid intensity of 17% NGE;
- 10% NGE for Alsace and the Doubs;
- All the above intensities are increased by 10% gross for SMEs.

On the basis of the above description of methodology and aid intensities applied in the case of France, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used (France):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>√ Employment zones were defined on the basis that they represent a single, homogeneous geographic unit that best reflects regional problems.</td>
<td></td>
</tr>
<tr>
<td>Can measure disparities</td>
<td>Yes.</td>
</tr>
<tr>
<td>√ Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.</td>
<td></td>
</tr>
<tr>
<td>Clear and</td>
<td>Yes.</td>
</tr>
<tr>
<td>Merits can be easily assessed</td>
<td>√ Yes, it is clear why this method is appropriate for selecting areas to be assisted.</td>
</tr>
<tr>
<td>√ Method for selecting areas and aid intensities consistent with Regional Aid Guidelines.</td>
<td></td>
</tr>
<tr>
<td>√ Population assisted amounts to 36.7% (2.8%, 32.3% and 1.6% for the 4 NUTS II regions, the 69 employment zones and the 14 employment zones, respectively) which is consistent with the population coverage ceiling set by the Commission.</td>
<td></td>
</tr>
<tr>
<td>√ Areas chosen fulfil the requirements of compact zones with a minimum population of 100,000⁴, ensuring a fair balance between investment possibilities and the population benefiting from them.</td>
<td></td>
</tr>
</tbody>
</table>

**Finland (FI)**

Finland is characterised by very low population density, especially in the most remote Northern part of the country and outside the main urban centres. Amongst the proposed regions, nine are characterised by very low population density.

**Finland: Methodology for proposing assisted areas under Article 87(3)(a)**

Finland selected the NUTS II region in eastern Finland, on the basis that those areas have a GDP/PPS of less than 75% of the Community average. These NUTS II regions include 4 NUTS III regions and 17 NUTS IV regions. These represent 13.4% of the total population.

**Finland: Methodology for proposing assisted areas under Article 87(3)(c)**

Finland selected the following groups of regions:

- **37 NUTS IV regions** (out of a total of 85 NUTS IV regions) for assistance under Article 87(3)(c). These regions were selected using a methodology of a single homogeneous geographical unit and five quantitative indicators.

- 2 regions for **consistency with Structural Funds**, of which one is a NUTS IV region and the other is part of a NUTS IV region with a population density of 0.3%. In addition, 10 **small islands** that are not covered by Article 87(3)(a) were designated by the State Council as areas eligible for state aid due to their isolation as they constitute islands without transport connections.

**Finland: Aid intensities**

For the NUTS II areas under Article 87(3)(a) the Finish authorities proposed maximum aid intensity of 24% NGE, plus 30% for SMEs.

For the Article 87(3)(c) areas, different aid intensities were proposed:

- For Objective 2 regions: 19% NGE, plus 10% gross for SMEs;
- For Objective 3 regions: 12% NGE, plus 10% gross for SMEs;
- For the area of Åland: 10% NGE, plus 10% gross for SMEs.

On the basis of the above description of methodology and aid intensities applied in the case of the Finland, we can deduct that all assessment criteria have been met successfully, as indicated below:

⁴ See point 3.10.3, second indent, of Regional Aid Guidelines.
Checklist of methodology used (Finland):

| Objective | Yes.  
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>√ NUTS IV regions were selected that reflect better the economic reality in the country.</td>
<td></td>
</tr>
</tbody>
</table>
| Can measure disparities | √ Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.  
| | √ Aid intensities are consistent with the Guidelines. |
| Clear and detailed | Yes.  
| Merits can be easily assessed | √ Method for selecting areas and aid intensities is consistent with the Regional Aid Guidelines.  
| | √ The population assisted under both Article 87(3)(a) and (b) represents 42.2% of the total. |

Italy (I)

Italy: Methodology for proposing assisted areas under Article 87(3)(c)

Italy selected three groups of areas, as follows:

- **49 employment areas** (out of a total of 784) were selected based on a methodology of a single geographic unit and three quantitative indicators. The reason for using employment areas (“sistema locale del lavoro”) instead of NUTS level III areas are the following:
  - the method used for demarcating employment areas is designed to produce a breakdown of Italian territory that maximises the population flow between home and place of work within a given geographical unit. It is based on the results of the 1991 census;
  - employment areas are economically significant areas that form part of a single local job market or ensure a strong correlation between home and place of work (ensures compliance with the Treaty);
  - they are economically and socially homogeneous areas;
  - they have been used since 1987 as units of reference in national policies on programming, economic development, employment and local autonomy;

- Parts of employment areas in 12 regions were selected as **eligible for Objective 2**;

- Parts of employment areas in one region (Molise) were selected as **eligible for Objective 1** (phasing out).

The regions proposed form **compact zones** (population of at least 100,000). They also show **significant disparities** (half of the standard deviation) compared with the average of the potential Article 87(3)(c) regions in Italy, in respect of at least one indicator used.

The only **exceptional characteristic** of the Italian regional aid map, compared to other MS, is related to the **dispersion between mechanisms of regional aid**, more specifically:

- One third of the areas eligible for the Article 87(3)(c) derogation are not eligible under Structural Funds;

- At the same time, half of the areas eligible under Objective 2, representing 7% of the Italian population, were not proposed by the Italian authorities for regional aid;

- As a result, there may be some loss of effectiveness of regional policy resulting from the dispersion between the above two mechanisms for supporting regional development.
Italy: Aid intensities

The proposed aid intensities for each group of regions are:

- 8% NGE for all employment areas, with the exception of the areas proposed in Abruzzi (eligible for Objective 2) and Molise (eligible for Objective 1 phasing out);
- 20% NGE for the areas proposed in Abruzzi and Molise;
- All the above intensity ceilings will increase by 10% gross for small firms in all employment areas and for medium-sized firms only in Abruzzi and Molise and by 6% gross for medium-sized firms in all other areas;
- The intensity ceilings also represent cumulation ceilings applicable to total aid where assistance is granted concurrently under several regional schemes, irrespective of whether it comes from local, regional, national or Community level.

On the basis of the above description of methodology and aid intensities applied in the case of Italy, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used (Italy):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>√</td>
<td>Employment areas represent an objective measurement of regional disparities as they are economically significant areas and ensure a strong correlation between home and place of work.</td>
</tr>
</tbody>
</table>

| Can measure disparities | √ | Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected. |
|-------------------------|---| As employment areas have been used extensively for national socio-economic policies, their use instead of the statistical units NUTS III level is justified and consistent with Guidelines. |
|                         |   | **However**, some **dispersion between Structural Funds and regional state aid** as mechanisms for regional development, may result in a loss of effectiveness of regional policy. |

| Clear and detailed | Very much so. |

| Merits can be easily assessed | √ | Yes, it is clear why this method is appropriate for selecting areas to be assisted. |
|------------------------------|---| Method for selecting areas and aid intensities consistent with Regional Aid Guidelines. |
|                              |   | Areas chosen fulfil the requirements of compact zones with a minimum population of 100,000⁵. |

Ireland (IRL)

Ireland is entirely eligible to Article 87(3)(a) and (c) as a country that was entirely eligible to 3(a) before 2000; there was hence no selection mechanism needed for 3(c) areas. Here, therefore, we provide only some description of the approved regions for 2000-2006.

Ireland: Assisted areas under Article 87(3)(a)

Following the establishment of a new regional administrative structure, Ireland was recently divided into two NUTS II regions.

⁵ See point 3.10.3, second indent, of Regional Aid Guidelines.
The Irish authorities proposed the new NUTS II region “Border, Midlands and Western region” (known as BMW region and consisting of three NUTS III sub-regions) to be covered by the Article 87(3)(a), since the beginning of 2000. In addition, the BMW region was accepted by the Commission as Objective 1 region for the Structural Funds period 2000-2006. Each of the sub-regions of the BMW region has a GDP per capita of less than 75% of the Community average, and therefore fulfil the conditions in point 3.5 of the Guidelines.

These regions represent 26.6% of the Irish population.

Ireland: Assisted areas under Article 87(3)(c)

The remaining NUTS III regions of the country, outside those selected for assistance under Article 87(3)(a), were selected for assistance under Article 87(3)(c). These comprise 5 NUTS III regions, including Dublin, which is the capital of the country and is more developed compared to the rest of those NUTS III regions. Four of those regions (Dublin, Mid-East, Mid-West and South-West) are eligible for transitional support under Objective 1 of SF until the end of 2005 and one region (South-East) until the end of 2006. These differences in transitional support under Objective 1 also determines the aid intensity ceilings, as seen below.

These regions represent 73.4% of the Irish population.

Ireland: Aid intensities

For the NUTS II areas under Article 87(3)(a) the Irish authorities proposed maximum aid intensity of 40% NGE for large enterprises. This aid intensity also takes into account the situation of the region bordering Northern Ireland, which allowed an aid intensity of 40% NGE according to footnote 44 of the Guidelines.

For the Article 87(3)(c) areas, different aid intensities for large enterprises were proposed, depending on their transitional status under Objective 1 and on a set of quantitative indicators (see below section on indicators):

- A gradual reduction from the current intensity ceiling of 40% to 20% by the year 2004 for 3 of the NUTS III regions (South East, Mid-West and South-West). The 20% ceiling will apply thereafter;
- A gradual reduction from the current ceiling of 40% to 18% by the year 2004 for 1 NUTS III areas (Mid-East). The 18% ceiling will apply thereafter;
- For Dublin there will be no gradual reduction, but the ceiling of 17.5% will apply throughout 2000-2006.

The different aid intensities of Dublin, Mid-East and the other 3 NUTS III areas are due to the more favourable economic situation of Dublin and Mid-east compared to the other regions, as revealed by the use of the quantitative economic indicators.

The above aid intensities would be raised by 10% gross for SMEs.

On the basis of the above description we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of rationale used (Ireland):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
<th>The regions were selected on the basis of their GDP compared with the Community average or on their Objective 1 or 2 statuses.</th>
</tr>
</thead>
</table>

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Can measure disparities:√ Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.√ Aid intensities take into account the seriousness and intensity of the regional problems addressed when examined in a Community context, in particular as regards neighbouring EU countries (Northern Ireland in this case).

**Netherlands (NL)**

**Netherlands: Methodology for proposing assisted areas under Article 87(3)(c)**

The Netherlands selected five NUTS V regions for assistance under Article 87(3)(c) using the methodology of a single geographic unit and five quantitative indicators. The population of these regions represents 15% of the total population in the country, which is consistent with the maximum national ceilings set by the Commission.

NUTS V level was chosen, instead of NUTS III level, as a geographic unit.

**Netherlands: Aid intensities**

For the Article 87(3)(c) areas, different aid intensities were proposed:

- For large enterprises, between 10% and 20% NGE were proposed;
- For SMEs, aid intensities would increase by 10% gross.

**Checklist of methodology used (Netherlands):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Can measure disparities</td>
<td>√</td>
</tr>
<tr>
<td>Clear and detailed</td>
<td>√</td>
</tr>
<tr>
<td>Merits can be easily assessed</td>
<td>√</td>
</tr>
</tbody>
</table>

**Luxembourg (LUX)**

**Luxembourg: Methodology for proposing assisted areas under Article 87(3)(c)**

Luxembourg selected 20 NUTS V regions, in three zones (North, South, East), on the following basis:

- The case of Luxembourg is different because the whole of the country’s territory corresponds to NUTS III level. The criteria of 100,000 inhabitants was instead used;
- NUTS level IV was not appropriate, since this level does not correspond to any administrative or political structure or to decisions related to regional policy;
- NUTS V level (“communes”) was therefore proposed as this reflects better the administrative structure and the socio-economic situation of the regions;
- The selected areas from compact zones, as the employment coverage in these areas is less than the population coverage;
- The choice of regions and aid intensity was based on three quantitative indicators.
It is worth noting that the selected regions represent 31.9% of the total population, and this below (by 0.1%) the national ceiling set by the Commission (32%). All except two of the selected regions are eligible for Structural Funds.

**Luxembourg: Aid intensities**

The aid intensity proposed for all eligible regions is 10% NGE.

On the basis of the above description of methodology and aid intensities applied in the case of Luxembourg, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used (LUX):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>√ A single geographic unit was used (NUTS V), which reflects the reality in Luxembourg, i.e. there are no NUTS III sub-regions as the whole country is a NUTS III region and NUTS V reflects the administrative and socio-economic structures and conditions.</td>
<td></td>
</tr>
</tbody>
</table>

| Can measure disparities | √ | Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected. |

| Clear and detailed | Yes. |

| Merits can be easily assessed | √ | Yes, it is clear why this method is appropriate for selecting areas to be assisted. |
| | √ | Method for selecting areas and aid intensities consistent with Regional Aid Guidelines. |
| | √ | Areas chosen fulfil the requirements of compact zones, with employment coverage below the population coverage. |

**Portugal (P)**

Portugal is entirely eligible to Article 87(3)(a) and (c) as a country that was entirely eligible to 3(a) before 2000; there was hence no selection mechanism needed for 3(c) areas. Here, therefore, we provide only some description of the approved regions for 2000-2006.

**Portugal: Assisted areas under Article 87(3)(c)**

Portugal includes *5 NUTS III level regions* for assistance under Article 87(3)(c), on the following basis:

- These regions qualified for Article 87(3)(a) assistance until the end of 1999, with a per capita GDP of between 55% and 58% of the Community average;
- They also show significant regional disparities, especially with regard to the thresholds set out in point 5 of Annex III of the Guidelines. These disparities were taken into consideration in the calculation of the distribution key for Community coverage of regional aid.

**Portugal: Aid intensities**

Different, gradually reduced, aid intensities were proposed for the different regions as a result of losing their status as Article 87(3)(a) regions. Losing this status implies during a transitional
period of maximum 2 years for operating aid and 4 years for aid for initial investment and job creation, a progressive reduction of the aid intensities for which these regions had been eligible under Article 87(3)(a) at a linear or faster rate until the intensity ceiling corresponding to the application of points 4.8 and 4.9 of the Guidelines is reached.

The proposed intensities are therefore:

- 10% NGE for only one region (Grande Lisboa) which has both a higher GDP/PPS and a lower unemployment rate than the respective Community average;
- A gradual reduction from 47.68% NGE in 2000 to 20% NGE in 2004 to 2006 for the remaining 4 NUTS III regions;
- All of the above intensity ceilings would be increased by 10% gross for SMEs;
- These intensity ceilings also represent the aid combination ceilings for the total amount of aid in cases where assistance is granted concurrently under several regional aid schemes, irrespective of whether it comes from local, regional, national or Community sources.

On the basis of the above description in the case of Portugal, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of rationale used (Portugal):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regions selected are NUTS III and received assistance under Article 87(3)(a) until the end of 1999.</td>
<td>√</td>
</tr>
<tr>
<td>Choices of areas and aid intensities reflect regional disparities of the regions selected.</td>
<td>√</td>
</tr>
<tr>
<td>Aid intensities take into account the seriousness and intensity of the regional problems addressed when examined in a Community context.</td>
<td>√</td>
</tr>
</tbody>
</table>

**Sweden (SWE)**

Sweden: Methodology for proposing assisted areas under Article 87(3)(c)

Sweden based its choice of eligible regions on points 3.10.4 and 3.10.5 of the Guidelines, which state that regions with a low population density (less 12.5 inhabitants per km²) and regions eligible under Structural Funds can qualify respectively.

The Swedish authorities selected therefore two groups of regions:

- **Group A: NUTS level V groups of communes** (forming part of NUTS III level regions) qualifying as regions with low population density (point 3.10.4 of the Guidelines). These regions represent 11.3% of the total population;
- **Group B: NUTS level V groups of communes** (forming part of NUTS level III regions) qualifying as regions eligible for Structural Funds (point 3.10.5 of the Guidelines). These regions represent 4.6% of the total population;
- **Two further communes** were also proposed as qualifying for Group A, although they belong to 2 regions that do not qualify as regions of low population density and are not eligible for state aid. The reasons are the following:
  - they are both areas with extremely low population density (3.8 and 3.3 km²);
  - their total population is also extremely low (less than half of the population of an eligible region with low population density);
  - the border low population density regions;
  - they qualify for Objective 6 (very sparsely populated areas);
  - they also qualify for Objective 1.
Sweden: Aid intensities

Different aid intensities apply to the two groups:

- For group A (communes with low population density) 30% NGE for large establishments and 30% NGE for SMEs;
- For group B (communes qualifying for Structural Funds) 17% NGE for large establishments. This ceiling increases by 10% gross for SMEs.

On the basis of the above description of methodology and aid intensities applied in the case of Sweden, we can deduct that all assessment criteria have been met successfully, as indicated below:

**Checklist of methodology used (Sweden):**

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td>√</td>
<td>Method is based on objective data regarding population density and total population (both being very or extremely low)</td>
</tr>
<tr>
<td>Can measure disparities</td>
<td>Yes.</td>
</tr>
<tr>
<td>√</td>
<td>Choices of areas and aid intensities reflect the specific characteristics of Swedish regions, especially those of low or extremely low population density or sparsely populated areas.</td>
</tr>
<tr>
<td>√</td>
<td>These characteristics imply disparities when compared with the rest of the Community.</td>
</tr>
<tr>
<td>Clear and detailed</td>
<td>Yes.</td>
</tr>
<tr>
<td>Merits can be easily assessed</td>
<td>Yes.</td>
</tr>
<tr>
<td>√</td>
<td>Yes, it is clear why this method is appropriate for selecting areas to be assisted.</td>
</tr>
<tr>
<td>√</td>
<td>Method for selecting areas and aid intensities consistent with Regional Aid Guidelines.</td>
</tr>
</tbody>
</table>

**United Kingdom (UK)**

**UK: Methodology for proposing assisted areas under Article 87(3)(a)**

The UK selected four NUTS II areas on the basis that those areas have a GDP/PPS of less than 75% of the Community average. About 28% of the assisted UK population live in these regions.

**UK: Methodology for proposing assisted areas under Article 87(3)(c)**

The UK selected three different groups of areas on the following basis:

- **The bulk of assisted areas on the basis of a method developed to define “job opportunity zones” for Great Britain.** The principle objective of regional industrial assistance in the UK is to create and safeguard employment. Results from the latest *external evaluation of the Regional Selective Assistance*, which is the main regional aid scheme in the UK, were taken into account for the development of job opportunity zones. The UK stated that for regional industrial assistance to be effective it must be targeted on those areas where the unemployed live, and where existing residents are more likely to remain unemployed if they suffer job losses. These areas have to be combined with locations which can provide major opportunities for addressing those needs through regional aid. To enable such targeting, the concept of regional employment zones was developed.
These regional employment opportunity zones are substantially self-contained-areas (average self containment is over 78%, i.e. 78% of working age people who live in the area must either work in the area or, if jobless, potentially work in the area). The purpose of measuring self-containment is to ensure that if a zone is eligible for regional industrial assistance because of labour market weaknesses of its residents, those residents are likely to benefit from the measures taken. Each zone has a population of at least 100,000 inhabitants.

The method used to select “job opportunity zones” was based on four statistical indicators (see below section on indicators).

- **Three areas for consistency with the Structural Funds Objective 2 areas.** In order to prove that the area proposed for national regional aid offers locations for investment possibilities and includes at the same time the population likely to benefit from the investment, the UK authorities compared the ratio of the jobs available per resident in the proposed area with the same ration of the entire zone (see below for detail on indicators).

- **Northern Ireland** was chosen on the basis of Footnote 44 of the Regional Aid Guidelines, which gives it exceptional status.

### UK: Aid intensities

For the NUTS II areas under Article 87(3)(a) the UK authorities proposed maximum aid intensity of 35% NGE.

For the Article 87(3)(c) areas, different aid intensities were proposed:

- Job opportunity zones, respectively parts of zones, would receive a maximum aid intensity of 30% NGE. These areas correspond to NUTS III areas or are parts of NUTS III areas, with a population density of less than 12.5 inhabitants per km²;

- A ceiling of 10% NGE will apply to those zones, respectively part of zones, which are in NUTS III regions, with a higher GDP/PPS and a lower unemployment rate than the respective Community average;

- A higher ceiling is proposed only for those of these areas which are adjoining Article 87(3)(a) areas;

- The remaining Article 87(3)(c) areas were proposed for a maximum ceiling of 15% or 20% NGE. The aid intensities were fixed on the current at the time local government demarcations in comparison with the previous regional aid map and ensured none of these areas had a higher aid intensity than in the previous period;

- In addition to the maximum aid intensities, the ceilings would be raised by supplements to SMEs (excluding the transport sector) by a maximum of 10% gross in the 10%, 15% and 20% areas;

- Finally, aid intensity ceilings proposed apply to *total aid*, where assistance is granted concurrently under several regional schemes and whether the aid comes from local, regional, national or Community sources.

On the basis of the above description of methodology and aid intensities applied in the case of the UK, we can deduct that all assessment criteria have been met successfully, as indicated below:

### Checklist of methodology used (UK):

<table>
<thead>
<tr>
<th>Objective</th>
<th>Yes.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>√</td>
</tr>
<tr>
<td></td>
<td>Job opportunity zones were defined using an objective, computerised model and were developed in order to replace the Travel-to-Work-Areas</td>
</tr>
</tbody>
</table>

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6 Footnote 44 states that “Northern Ireland will retain its status as an exceptional region and its ceiling will be 40%”.

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by geographical units better targeted in terms of UK regional development concepts.
√ Based on thorough analysis and incorporating results of external evaluation of regional policy.

| Can measure disparities | √ Choices of areas and aid intensities reflect both the economic situation of each region as well as differences in socio-economic circumstances of the regions selected.√ Aid intensities take into account the seriousness and intensity of the regional problems addressed when examined in a Community context, in particular as regards neighbouring EU countries.√ As the job opportunity zones were designed specifically for regional development purposes, their use instead of the statistical units NUTS III level is justified and consistent with Guidelines. |
| Clear and detailed | Very much so. |
| Merits can be easily assessed | √ Yes, it is clear why this method is appropriate for selecting areas to be assisted.√ Method for selecting areas and aid intensities consistent with Regional Aid Guidelines.√ Areas chosen fulfil the requirements of compact zones with a minimum population of 100,000⁷, ensuring a fair balance between investment possibilities and the population benefiting from them. |

2. **INDICATORS**

In assessing the appropriateness of indicators used by different Member States we used the following criteria:

- whether the number of indicators, including both simple indicators and combinations of indicators, is limited to five (conformity with point 3.10.2, first indent, of the Guidelines);
- whether they are objective and relevant to the examination of the socio-economic circumstances of the region (conformity with point 3.10.2, second indent, of the Guidelines);
- whether they are based on statistical series relating to the indicators used over a period including at least three years prior to the moment of notification, or derived from the last survey carried out, if the relevant statistics were not available on an annual basis (conformity with point 3.10.2, third indent, of the Guidelines).

Below is a summary of the different indicators selected by Member States:

**Austria (AT)**

A combination of five indicators was used in the case of Austria that measured:
1. Regions where economic development is poor;
2. Regions with weak economic potential;
3. Regions with slow economic growth;
4. Unemployment;
5. Structural risks (for example, high dependence on sectors with weak productivity).

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⁷ See point 3.10.3, second indent, of Regional Aid Guidelines.
On the basis of the above description of indicators used in the case of Austria, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used:**

<table>
<thead>
<tr>
<th>Number</th>
<th>Objective and relevant</th>
<th>Based on statistical series</th>
<th>Derived from reliable statistical sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five in total.</td>
<td>Yes. What the indicators measure is relevant for the examination of the socioeconomic circumstances of the regions. However, the specific indicators that measure economic development and economic potential were not explained (the “what” was provided, not the “how”).</td>
<td>Yes, last three available years.</td>
<td>Yes.</td>
</tr>
</tbody>
</table>

**Belgium (B)**

Socio-economic disparities in the NUTS V level regions chosen in Belgium were measured using the following **five quantitative indicators**:

1. Average income per capita (average of years 1994-1995-1996);
2. Unemployment rate, measured by the ratio of unoccupied job seekers to working age population between 20 and 64 years old (average of years 1996-1997-1998);
3. Industrial employment rate, measured by the ratio of industrial employment in declining sectors to total industrial employment. Sectors in decline are metallurgy, textile, confection and furniture, and have been determined by the considerable job losses during the period 1993-1998;
4. An indicator of the tensions in the labour market, measured by the ratio of active population aged between 10 and 25 years (entrants) to active population aged between 50 and 65 years (exiting the market) (average of years 1996-1997-1998);
5. Industrial unemployment rate, measured by the ratio of industrial employment to total employment (average of years 1996-1997-1998).

For each of these indicators, data is from the national institute of statistics (INS) or from the national office for social security (ONSS). As described, indicators use statistical series of three years.

On the basis of the above description of indicators used in the case of Belgium, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used:**

<table>
<thead>
<tr>
<th>Number</th>
<th>Objective and relevant</th>
<th>Based on statistical series</th>
<th>Derived from reliable statistical sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five in total.</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
<td>Yes, last three available years.</td>
<td>Yes, two official statistical sources were used.</td>
</tr>
</tbody>
</table>

**Germany (D)**
Labour market regions under Article 87(3)(c) in West Germany were ranked using a **synthetic indicator** based on the following **four weighted sub-indicators**:

1. Average unemployment rate from 1996 to 1998 (weighting 40%);
2. Per capita income in 1997 of employed persons paying social security contributions (weighting 40%);
3. Infrastructure indicator (weighting 10%);
4. Employment forecast up to 2004 (weighting 10%).

The purpose of these indicators is to draw an accurate picture of which regional problems exist in West Germany and which regions required regional aid. The region with the least favourable situation, as determined by the synthetic indicator, is ranked in first place with the others following in ascending order.

The indicators were based on statistical series covering a period including at least the three years prior to the notification or were derived from the last survey carried out, where the relevant statistics were not available on an annual basis. The fourth indicator was based on a statistical projection method using time series data from at least the last three years.

On the basis of the above description of indicators used in the case of Germany, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used (Germany):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Four weighted indicators (leading to a synthetic one).</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of labour market regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Yes, last three available years.</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, official statistical sources were used.</td>
</tr>
</tbody>
</table>

**Denmark (DK)**

For selecting Article 87(3)(c) areas, **three statistical indicators** were used, with the first one being a weighted average of five sub-indicators:

1. A socio-economic indicator, based on a weighted average of five indicators:
   a. Percentage of total population between 20 and 66 years old (average of years 1996-1997-1998);
   b. Average unemployment rate (1996-1998);
   c. Income per capita (average 1994-1996);
   d. Employment rate as a percentage of the total population (average 1995-1997);
   e. Employment in the manufacturing sector as a percentage of the population (average 1995-1997);
2. Population density (1998);

Regions with larger disparities compared to the Denmark as a whole were prioritised based on at least one of the indicators. The weighted average of five indicators was used as an index. In the calculation of the index, the employment and income indicators were assigned double weight.
Statistical series were used covering a period including at least three available years prior to the notification or were derived from the last survey carried out, where the relevant statistics were not available on an annual basis. The database on “communes” statistics of the Statistical Office of Denmark was the source of the data.

On the basis of the above description of indicators used in the case of Denmark, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used (Denmark):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Three indicators (one of which consisted of five weighted sub-indicators)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of labour market regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Yes, last three available years (more than that in the case of population growth).</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, official statistical sources were used.</td>
</tr>
</tbody>
</table>

**Greece (EL)**

The definition of indicators is not required for selecting areas to be assisted under Article 87(3)(8a) as these are determined by the DGP/PPS which is lower than 75% of the Community average. However, in the case of Greece, the authorities used two indicators, unemployment and population growth to determine zones that would receive different aid intensities. In particular, Zone C included of areas with very serious unemployment problems and negative population (refers to active population) growth.

**Spain (ES)**

For selecting Article 87(3)(c) areas, four indicators were used:

1. Population density (inhabitants per km²). Source: Census of the National Statistical Institute (NSI) for 1996 which is the last one carried out prior to this notification;
2. The rate of ageing of the population since it constitutes an indicator for future reductions in population density. Source: 1996 Census of the NSI;
3. The employment rates in the industrial sector as it reflects the dependency of the industrial sector on the “comarca” in question. Source: 1996 survey of the active population by the NSI;
4. Unemployment rate of people aged over 45. Source: 1996 survey of the active population by the NSI.

Spanish authorities obtained the value of these indicators for each of the eligible “comarcas”. Then, they determined the media and half of the standard deviation for the values of each indicator. Finally, only “comarcas” that showed significant disparities (half the standard deviation) in respect of at least one indicator were chosen.

As seen above, an official statistical source was used: the National Statistical Institute.

On the basis of the above description of indicators used in the case of Spain, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:
Checklist of indicators used (Spain):

<table>
<thead>
<tr>
<th>Number</th>
<th>Four.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Not on statistical series, but they are based on the last available census prior to the notification.</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, an official statistical source was used.</td>
</tr>
</tbody>
</table>

France (F)

For selecting Article 87(3)(a) areas, the GDP/PPS of less than 75% of the Community average was used. As seen above, under Methodology, four NUTS II areas were selected.

For selecting Article 87(3)(c) areas, four indicators were used:

1. Average net taxable revenue per fiscal household (1994);
2. Unemployment rate (1998);
3. The relative weight of industrial sectors potentially in crisis (textile-clothing-leather, car assembly, shipbuilding yards, mining, defence industry);
4. The importance of jobs lost in relation to the total population, decided since 1996.

These indicators are based on two official statistical sources, the INSEE or the statistical service of the ministry in charge of energy. After applying these indicators, 169 employment zones were selected.

On the basis of the above description of indicators used in the case of France, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

Checklist of indicators used:

<table>
<thead>
<tr>
<th>Number</th>
<th>Four, simple indicators.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Yes, based on statistical series since 1996 or on the last available year of data.</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, two official statistical sources were used.</td>
</tr>
</tbody>
</table>

Finland (FI)

For selecting Article 87(3)(c) areas, **five, simple or combined, indicators** were used:

1. Unemployment rates (1996-1997-1998);
2. Long-term unemployment and young unemployment as a percentage of total unemployment (1998);
3. Large reduction of employment in industry (1985-1996);
4. Net population growth (1995-1997);
   a. GDP per capita;
   b. Percentage of active population in agriculture and forestry;
   c. Relationship between non-active population and working population.
The calculation of the indicators was based on data from official statistical sources.

On the basis of the above description of indicators used in the case of Finland we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used (Finland):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Objective and relevant</th>
<th>Based on statistical series</th>
<th>Derived from reliable statistical sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five (four simple and one combined).</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
<td>Yes, last three available years or more.</td>
<td>Yes, an official statistical source was used.</td>
</tr>
</tbody>
</table>

**Italy (I)**

For selecting employment areas three indicators were used:

1. Average employment rate (1994 to 1996);
2. A composite indicator identifying the less favoured industrial areas, consisting of the arithmetic mean of:
   a. the unemployment rate, calculated as an average of the unemployment rates over the period 1994 to 1996; and
   b. the ratio of jobs in industry to the total number of jobs existing in 1996;

All this data was supplied by the national statistics office (ISTAT: Istituto Nazionale di Statistica).

The indicators applied to employment areas led the Italian authorities to select 49 employment areas for assistance under Article 87(3)(c), in consistency with point 3.10.3 of the Guidelines.

On the basis of the above description of indicators used in the case of Italy, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used (Italy):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Objective and relevant</th>
<th>Based on statistical series</th>
<th>Derived from reliable statistical sources</th>
</tr>
</thead>
<tbody>
<tr>
<td>Three (two simple and one composite).</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
<td>Yes, last three available years or more.</td>
<td>Yes, an official statistical source was used.</td>
</tr>
</tbody>
</table>

**Ireland (IRL)**

The definition of indicators was not required for selecting areas to be assisted in Ireland as no selection mechanism was needed for selecting areas under Article 87(3)(c). However, for determining the aid intensities for regions benefiting from the Article 87(3)(c) derogation, as regions eligible for transitional support under Objective 1, **four indicators** were used:
1. Earned income;
2. Relative degree of urbanisation;
3. Employment in manufacturing, services and agriculture;
4. Unemployment rate and structure.

The relevant statistics were based on average figures of the years 1994-1996 from the Central Statistics Office in Dublin.

On the basis of the above description of indicators used in the case of Ireland (although they were not officially required) we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used (Ireland):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Four simple indicators.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Yes, last three available years.</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, an official statistical source was used.</td>
</tr>
</tbody>
</table>

**Netherlands (NL)**

For selecting Article 87(3)(c) areas, five indicators were sued:

1. Active population as a percentage of total population (1995-1997);
2. Registered unemployed (1995-1997);
3. Percentage of people employed aged 15-64 (1995-1997); *(confirm this one)*
4. Average income per household (1996);

All the data used for the indicators comes from the Central Bureau of Statistics.

On the basis of the above description of indicators used in the case of the Netherlands, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

**Checklist of indicators used (Netherlands):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Five simple indicators.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Yes, last three available years.</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, an official statistical source was used.</td>
</tr>
</tbody>
</table>

**Luxembourg (LUX)**

For selecting Article 87(3)(c) areas, three indicators were used:

1. Unemployment rate in 1998;
2. Industrial employment density in 1996;
On the basis of the above description of indicators used in the case of Luxembourg, we can deduce that most assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines. No indicator was based on statistical series while the source of the data in not specifically mentioned, as indicated below:

**Checklist of indicators used (LUX):**

<table>
<thead>
<tr>
<th>Number</th>
<th>Three</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective and relevant</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>No, based on last available year</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Not specified.</td>
</tr>
</tbody>
</table>

**Portugal (P)**

Portugal is entirely eligible to Article 87(3)(a) and (c) as a country that was entirely eligible to 3(a) before 2000; there was hence no selection mechanism needed for 3(c) areas.

**Sweden (SWE)**

For selecting areas under Article 87(3)(c) the Swedish authorities used population figures and population density per region. This is relevant in the Swedish case, as it qualifies for Article 87(3)(c) on the basis of points 3.10.4 and 3.10.5 of the Guidelines (low population density and eligibility under Structural Funds).

**United Kingdom (UK)**

For selecting Article 87(3)(a) areas, the GDP/PPS of less than 75% of the Community average was used. As seen above, under Methodology, four NUTS II areas were selected.

For selecting Article 87(3)(c) areas, different indicators were used for different groups of areas. In particular, for selecting “job opportunity zones”, four statistical indicators were used:

1. Residential employment rates (residents in employment divided by residents of working age);
2. Residential unemployment rates (residents ILO unemployment divided by economically active residents);
3. Workforce unemployment rates (residents claiming unemployment benefits divided by the sum of total employee jobs and residents claiming unemployment benefits);
4. Manufacturing share of employment (number of manufacturing employee jobs divided by total employee jobs).

The first two indicators permit the identification of areas where a high proportion of local residents face labour market exclusion. The third indicator suggests areas where there are few jobs of any sort locally available for local unemployed people. The fourth indicator suggests areas vulnerable to a continued concentration in manufacturing employment.

As a result of applying these indicators, 65 zones, out of 194 across the UK, were chosen.

Data used for the indicators has been derived from numbers obtained from the following four official statistical sources:
• the Labour Force Survey (LFS);
• the Annual Employment Survey (AES);
• the count of claimants of unemployment-related benefits (Claimant Count); and
• the 1991 Census of Population.

Apart from the 1991 Census, the figures for the last three available years at the time of the initial proposal were averaged.

For selecting areas consistent with Structural Funds Objective 2 areas, one indicator was used. This was an index based on the ratio of the jobs available per resident in the proposed area compared with the same ratio of the entire zone. An index equal to or less than 100 (local jobs per resident in the entire zone) indicates that the proposed part of the zone offers an equal number or less jobs to its residents than the entire zone offers to their residents. The proposed part thus incorporates the population likely to benefit from investment in the area.

Three indexes of less than 100 were calculated for three Structural Fund areas and specific parts of these areas were chosen to benefit from regional state aid.

No specific indicator was used for Northern Ireland, as it was chosen on the basis of the exception covered by Footnote 44 of the Guidelines.

On the basis of the above description of indicators used in the case of the UK, we can deduct that all assessment criteria have been met successfully and indicators fulfil the requirements of point 3.10.2 of the Guidelines, as indicated below:

Checklist of indicators used (UK):

<table>
<thead>
<tr>
<th>Number</th>
<th>Objective and relevant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Five (four for job opportunity zones and one for SF areas).</td>
<td>Yes. Relevant for the examination of the socioeconomic circumstances of the regions.</td>
</tr>
<tr>
<td>Based on statistical series</td>
<td>Yes, last three available years.</td>
</tr>
<tr>
<td>Derived from reliable statistical sources</td>
<td>Yes, four official statistical sources were used.</td>
</tr>
</tbody>
</table>

1. CONCLUSIONS

The summary of methodologies and indicators used by country confirms that all Member States used methodologies and indicators in consistency with the regional aid Guidelines, even if sometimes the regions and aid intensities applied were amended following recommendations by the Commission.

It is interesting to note that most Member States used geographic units other than the NUTS III level regions, as their socio-economic realities or administrative structure corresponded to a different level unit. In all cases, there was adequate justification of why a different geographic unit was chosen, while in a few cases, like for example the UK, a very detailed and thorough description of the reasons was provided.

The regions selected for the derogation under Article 87(3)(c) showed significant disparities when compared with the average of the potential 87(3)(c) regions in the Member State concerned. Population coverage was also consistent with the national ceilings set by the Commission.

In most cases, quantitative indicators were used to select regions, using time series data, or last available year data in the case of indexes, from official statistical sources. When indicators
were used they were not maximum than five and they were objective and relevant to the socio-economic circumstances of the regions concerned. However, for some countries (for example Sweden), there was no specific description of the indicators used, which led to the assumption that only population figures were used (in the case of Sweden for example, population densities seem to have been used) or consistency with Structural Funds. This point will need to be further investigated.

Overall, the methodologies and indicators used were objective and relevant, clear and detailed, and their merits could be easily assessed.
Part II: Summary of Efficiency analyses regarding regional policies in member States

This section summarises all analyses and reports that have been found so far which relate to regional policy, focusing on the efficiency and impact of regional policies as well as priorities of regional policies. The latter may best explain the choice of methodologies and indicators, since indicators chosen should in theory reflect regional policy priorities and aim to select regions for regional state aid in order to reduce regional disparities.

Some studies may not as a whole be related to regional policy or its efficiency. They may include only some chapters or sections related to regional policy. Our summaries below refer only to the relevant parts of such –more general– studies.

Finally, any evidence of regional problems and regional policy priorities that may have influenced the designation of assisted areas (including the choice of methodology and indicators) stands out in the text in the form of a box.

Germany (D)


1. General summary

The paper contains the essential analytical and prognostic results of the Spatial Planning Report 2000 and the resulting conclusions for spatial planning policy:

- The first chapter introduces the subject. It describes the most important spatial types - agglomeration areas, urbanised areas and rural areas as well as settlement and traffic corridors. It indicates the nature and development of land use, explains the finely meshed system of centres and describes the intensive spatial interconnections between cities and regions through exchange and transport relationships.

- The second chapter is devoted to the most important regional problems. It concentrates on the economic and social structure, discusses the provision of the regions with infrastructure facilities and describes the impacts of spatial development on land and on our landscapes.

- The third chapter considers the impacts of the economic and social changes on spatial development and summarises the trends for the urban system and for rural areas.

- The fourth chapter provides answers to the question how spatial planning actually functions and how the different participants co-operate.

- The final chapter presents the conclusions and the perspectives for spatial planning policy derived from the analyses and prognoses of the Spatial Planning Report 2000. Focal points are the adjustment of living conditions in the regions, the improvement of the situation in the cities and of living opportunities in rural areas as well as a further extension of infrastructure.

2. Summary of sections relevant to efficiency and impact of regional policy

2.1 Key regional problems and regional disparities

Regional disparities in Germany emerge in population development, out-migration, in-migration, employment dynamics, unemployment and infrastructure development. The
unification of Germany, with the inclusion of the new Lander, has increased the scope of regional differences considerably, for example the new Lander have rural areas which are more sparsely populated than in the old Lander and cities which were more densely populated and which had not experienced suburbanisation in their surrounding areas. It is argued that the differences between the east the west will determine regional disparities in Germany for many years to come, although there are indications that regional development dynamics in the east and the west are adjusting in a united Germany and that the differences are decreasing.

Key regional problems and disparities can be summarised in terms of:

- **Social and economic structure:**
  - Regional differences in income between east and west;
  - Differences between urbanised regions with dynamic labour markets and rural areas;
  - Different spatial concentrations of old people, combined with diminishing mobility of old people and increasing decentralisation of the settlement structure;
  - The integration of foreigners is not equally distributed over the regions;
  - The decline in births and the net out-migration of young people will lead to a severe ageing of the population, especially in rural areas;
  - Rural peripheral areas, in addition to regions characterised by “old” industries and economic sectors in crisis such as coal, steel and shipbuilding, are experiencing the greatest difficulties in managing economic structural changes and in establishing equivalent living conditions. They are characterised by high unemployment and a large number of long-term unemployed;
  - Unemployment is particularly high in East Germany and the structurally weak areas in northern Germany and peripheral rural regions in eastern Germany;

- **Infrastructure and housing:**
  - No particular problems evidenced with respect to road transport, since Germany’s decentralised settlement structure and its developed road network contribute to quick access for all regions to the long-distance transportation network;
  - However, the privatisation of the railway system has led to suspension of connections, especially in rural and peripheral areas, as these services were not cost-effective. Low cost-effectiveness is also the reason for regional differences in the quality of the supply of long distance and local public transportation, especially in border regions and sparsely populated rural areas;
  - Insufficient supply of housing for certain social groups like low-income households, especially young tenant households with several children.

- **Landscape and land use:**
  - Intensive agriculture, the consolidation of farmland, drainage, the straightening of rivers and urbanisation have encroached upon the landscape, transforming agricultural land near cities into building land and contributing to air and ground water pollution;
  - Increasing segmentation of natural areas;
  - The road infrastructure also puts strain on the quality of life by consuming land and provoking air pollution;
  - Mining activity and flooding have also created problems in certain regions’ ecosystems.

Regional disparities in terms of economic structure (especially unemployment) and infrastructure are given significant importance, which may explain the use of income, unemployment and infrastructure for the design of indicators for the designation of assisted areas under Article 87(3)(c).

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An important goal of spatial planning policy is to achieve equivalent living conditions in Germany.
2.2 Spatial planning goals and instruments

A long list of prerequisites for the competitiveness of a region have been identified:

- high population density as a workforce and customer potential;
- active investment and economic power;
- innovative potential;
- good provision of infrastructure facilities (schools, hospitals, roads, local public transportation and energy);
- supply of housing;
- vocational qualifications of workers;
- proximity to research facilities;
- a differentiated economic structure;
- performance of the private sector, the trade unions and local and regional politics.

These prerequisites dictate to a great extent the strategies and instruments for effective spatial planning. The region is viewed as a union of cities and their surrounding municipalities and is crucial for the realisation of spatial planning models and goals.

This may explain the use of Labour Market regions for the designation of assisted areas under Article 87(3)(c), as they typically consist of cities and their surrounding areas and are identified as economic zones in terms of functionality, rather than administrative boundaries.

The Federal Regional Planning Act emphasises the growing importance of the region inter alia as a planning and implementation level by introducing a new instrument: the regional land use plan. Spatial planning policy requires therefore co-ordination between the different planning levels, namely the federal Lander, the municipalities and the different types of spatially effective sector planning. Concepts which strengthen regional competitiveness and sustainable regional development are increasing in importance.

The key goals of the spatial planning policy are:

- the reduction of discrepancies in living standards between east and west Germany as well as the improvement of structurally weak rural areas;
- the solution of employment and housing market problems and the further expansion of infrastructure, key factors for international competitiveness;
- the active protection of the environment and safeguarding living conditions of future generations.

The choice of indicators may have been driven by these goals, as they are related to income, employment, unemployment and infrastructure.

2.3 Impact of spatial policies on regional development

Spatial planning policy so far has contributed to:

- a reduction of regional differences in prosperity and income between east and west Germany;
- differentiation of the employment structure in rural areas;
- the consolidation of labour markets in some structurally weak areas, especially in the new federal Lander;
- the creation of a more spatially balanced provision of high-quality infrastructure; and
- easing the situation on the housing market all over Germany, with the difference with regard to housing space and housing quality in east and West Germany being reduced as a result.

The above was achieved due an enormous amount if funding from federal funds, the Lander, the Federal Labour Office and EU structural policy grants. These funds were not distributed evenly over Germany’s regions but were concentrated on areas in great need.

Despite the above policy implementation, there are still structurally weak regions in Germany, namely with respect to:

- **Employment**: the labour markets in structurally weak regions of the old federal Lander will experience employment problems as the labour force will increase. For example there are rural regions which lack industrial jobs and suffer from continued out-migration of inhabitants and jobs;
- **Relative geographic isolation**: rural areas in Germany’s border regions and far away from economic centres, but also agglomeration areas which were dominated by “old industries” for a long time will continue to require assistance and support in the coming years;
- **Infrastructure**: an equalisation of infrastructure will require considerable efforts in the future, including the extension of transportation infrastructure in East Germany and the improvement of the attractiveness of cities as a counterpoint to continuing suburbanisation. In addition, structurally weak rural regions lack important infrastructure facilities.

All of the above constitute primary tasks of future spatial planning policy which aims at reducing regional disparities.

The above mentioned persistent structural weaknesses may very well have contributed to the design of indicators that take into account these weaknesses.

“**Sustainable Regional Development: System of Objective Indicators**, by the BBR (Federal Office for Building and Spatial Planning), Bonn

This document is a list of objectives and indicators designed by the BBR for sustainable regional development. Indicators satisfy the following three key objectives:

- Economic competitiveness and sustainable economy;
- Social and spatial justice;
- Protection of the natural resources.

Each of the above categories consists of a list of part objectives with an indicator for each. Most of the indicators are available immediately, while some are not available immediately and only a few are difficult to obtain.

Here we present a selective list of those indicators which appear to be pertinent to the development of indicators for regional assistance under Article 87(3)(c).

Amongst the **economic competitiveness and sustainable economy** indicators:

- Gross per capita value added addressing the objective of maintaining the economic power;
- Sectoral concentration addressing the objective of maintaining and producing a multifarious sectoral structure;
- Employees in SMEs addressing the objective of maintaining and producing a multifarious company structure;
Amongst the social and spatial justice indicators:

- Unemployment rate addressing the objective of suitable supply with jobs;
- Long-term unemployment rate addressing the same objective;
- Income per household addressing the objective of suitable income;
- Connection to the next higher order centre addressing the objective of good accessibility of infrastructure;
- Average distance home to job addressing the objective of good accessibility of jobs;
- Internal migration rate addressing the objective of contentment with the regional living and working conditions;
- Young persons unemployed and welfare recipients addressing the objective of reducing the unemployment of the youth.

This selective list demonstrates that German authorities have carried out detailed background work on the design of indicators for sustainable regional development, which must have fed into the choice of indicators for designating areas for assistance under Article 87(3)(c).

Spain (ES)

“Public investment and convergence in the different Spanish regions”, José Manuel González-Páramo, Diego Martínez López, Published by the Universidad de Jaén.

1. General summary

This paper studies the empirical relationships that exist between public investment and per capita income growth over the period 1965-1995 in the different Spanish regions. It uses a neoclassical model with public and human capital and a panel data technique to derive a convergence equation. The model provides evidence of the conditional convergence hypothesis but the results also show the negative effect of productive public investment on the rate of regional economic growth.

2. Specific results relevant to impact of public investment

In most Western economies, regional policies concentrate their efforts on the provision of a level of infrastructures that guarantee the development of economic activity. This strategy is based on the recognition of a direct relationship between public capital and per capita income growth rate. This paper show somewhat different empirical results for Spanish regions, summarised as follows:

- A first set of results supports the conditional convergence hypothesis among Spanish regions, except for the case of public productive investment where a negative effect of this variable on regional economic growth rate is obtained, although with a limited statistical significance;
- A second set of results is based on estimates using instrumental variables. Public productive investment maintains its negative effect on regional economic growth, this time with statistical significance;
• Alternative specifications are also considered to test the above results, but without any further reliable results. Therefore, the case of a negative effect of productive public investment on regional growth remains the same;

• The most meaningful conclusion is reached when the empirical results are linked to theoretical models that advance, under different assumptions, a non-positive effect of public capital spending on economic growth. The hypothesis that **public investment in Spain over a period was directed especially to regions that present a higher public capital per private capital ratio** was tested and confirmed. The return of public investment in these regions is less, so that the distribution of public capital spending among regions had a null or negative effect on aggregate economic growth. However, **productive public investment favoured regional growth through an indirect link**, namely complementarity between public and private investment.

In conclusion, the complex links between infrastructures and growth require policy makers to consider a miscellany of factors for measuring public capital effectiveness. Since **public investment is one of the main instruments for reaching regional convergence**, the empirical findings of the paper have the following policy implications:

• It is likely that the impact of infrastructure on economic activity depends on factors such as:
  - adequate industrial mix;
  - business culture;
  - managerial dynamics;
  - the capacity to generate agglomeration externalities.

However, the paper does not answer the questions of whether public investment distribution played a role in correcting regional imbalances nor what its effectiveness was. It concludes by saying that further research is required on these issues, and leaves an important gap regarding the effectiveness of public investment for regional development.

Not much evidence that the policy implications derived from this paper fed into the design of indicators for regional state aid.

“Does cohesion policy work? Some general considerations and evidence from Spain”, Angel de la Fuente, Instituto de Análisis Económico (CSIC), October 2002

1. **General summary**

The paper deals with two key questions. The first one is whether we can reasonably expect that EU co-financing of infrastructure and training programmes will contribute to growth and convergence, and the second one has to do with the level at which redistribution should be conducted. On the first issue, he argues that supply-oriented regional policies can work in principle and have actually worked quite well in the case of Spain, at least when judged in terms of their stated objectives. The arguments are based on a brief review of the available empirical evidence on the growth effects of investment in infrastructure and education and on some estimates of the impact of the Structural Funds in Spain. On the second issue, he argues that EU cohesion policy should be formulated at the national rather than at the regional level, essentially because member states already have adequate systems for internal redistribution.

2. **Impact estimates of regional policies on growth and convergence in the Spanish regions.**

The impact was estimated based on a supply oriented model estimated with regional panel data covering a period of 30 years. There is a clear difference in the contribution of infrastructure
investment to convergence in income per capita across Spanish regions between the period prior to 1980s and post accession to the EU (1986). For example, Spanish infrastructure investment was not redistributive at all prior to 1980. After this date, by contrast, the redistributive pattern is clear and the contribution to regional convergence becomes positive and sizable. Although the policy shift actually starts a bit before Spain's accession to the EU (which took place in 1986), it is argued that the Structural Funds have played a key role in it by channelling a large volume of infrastructure investment into lagging regions.

The model is used to produce estimates of the contribution of all public resources channelled through the last completed Community Support Framework (CSF) to the growth of output and employment in the poorer Spanish regions. It is important to note that the author stresses the difficulty of separating Spanish regional policy from Structural Funds, as it is difficult to know how Spanish administrations would have reacted to the loss of these funds. In the analysis of this paper, CSF includes national resources as well as EU grants.

Hence, the impact of public resources is summarised in the following categories:

- **Impact on stocks:**
  - initial increase of physical capital and infrastructures, which return to their original levels as CSF investments depreciate;
  - constant increase in stocks of human capital;
- **Impact on the evolution of output and employment:**
  - initial increase of output, which declines as soon as CSF was completed due to depreciation (as in the case of stocks);
  - net job creation remains positive until about 15 years after the conclusion of the programme (when future estimates are included);
- **Impact on different territories:**
  - growth effects vary considerable across territories, reflecting differences in both the volume of investment and in its rate of return;
  - Objective 1 regions’ output and employment benefit almost twice as much as the entire country;
- **Impact on convergence in income per capita:**
  - for the whole Objective 1 territory, the convergence ratio is a bit over 20%, reaching values of above 30% for some Spanish regions;
  - convergence in the rest of the country is lower than in the Objective 1 regions.

As a result, it is suggested that structural policies worked quite well in Spain. In particular, they contributed, significantly to the growth of the poorer regions and to the reduction of regional disparities. It is emphasised, however, that focusing on lagging regions entails a sizable efficiency cost and may not be optimal from a national perspective. The data shows that the estimated returns on public investment are much higher in some of the richest Spanish regions than in most of the territories that are eligible for assistance under Objective 1. It follows that the overall impact of CSF (national and EU funding) would have been considerably higher (and Spain’s convergence toward average EU income correspondingly faster) if efficiency considerations had been given greater weight in the allocation of these funds.

| There was a more sustainable impact on job creation than on output in the Spanish regions. This may be reflected in the choice of indicators which focus on population and employment rates. The positive contribution of CSF to Objective 1 regions resulted in some of them ceasing to be |

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9 At the time of writing (CSF for 1994-99).
10 Convergence ratio is measured as the fraction of the original income gap that would have disappeared as a result of the execution of CSF.
eligible for the derogation under Article 87(3)(a) and becoming eligible instead for the derogation under Article 87(3)(c), benefiting from a gradual reduction of aid intensities.


1. General Summary

The purpose of the paper is to show the evolution of disparities among the Spanish regions for the period 1980-1995 taking as a staring point the fact that they have experienced different growth rates with respect to Gross Value Added (GVA), the employment and the population. These differences have resulted in also differentiated behaviour in terms of GVA per capita and GVA per employment. The paper studies the sigma\textsuperscript{11} and beta\textsuperscript{12} convergence to conclude whether there has been a process of reduction of disparities among the Spanish regions or quite the opposite if the stagnation has been the common characteristic in this process. Some explanatory factors of this regional behaviour are also shown.

The database used for the GVA was developed by Campo, Cordero and Gayoso (1996) and the database used for population and employment derives from official series of the National Employment Institute and Regional Accounting in Spain.

2. Detailed description of findings

2.1 Evolution of regional disparities in Spain

The key aspects of the evolution of regional disparities can be summarised as follows:

1. **In terms of average growth rates**, 17 autonomous communities (NUTS II administrative units) reach growth rates that are higher than the national average, while the remaining 8 are below the national average. The majority of those below the national average were qualified as “less developed”. This means that the possibilities for them to reach the wealthier or more developed regions is practically null, since they would have had to grow at a much faster rate than the developed regions or, alternatively, they would have had to register a reduction of population, since disparities are measured in terms of GVA per capita.;

2. **Effects of interregional migration and demographic tendencies:**
   a. Interregional migration has practically stagnated. Those regions that in the sixties and seventies experienced net out-migration stopped any migration trend after the end of the seventies, while those regions that had been net receptors of interregional migration experienced practically zero in- migration rates;
   b. In terms of demographic trends, those regions with high birth rates have continued growing in terms of population, while those with low or declining birth rates have stagnated in terms of population growth. As a result, the regions with high birth rates and low out-migration (especially Andalucia and Murcia) have increased their relative weight or their participation in the total Spanish population;

\textsuperscript{11} The $\sigma$ (sigma) convergence is a measure of dispersion that indicates the inequality rate between different economies, using as a reference a certain economic variable: GVA per capita or per person employed.

\textsuperscript{12} The $\beta$ (beta) convergence analyses whether a situation of relative negative growth improves through time. In other words, it analyses if less developed regions register higher growth rates than more developed regions in a way that the phenomenon of “catching-up” is produced.
3. **Regional employment variations.** One of the key characteristics of the period 1980-1995 is the continuing high unemployment in the country, due to both economic and demographic factors. The only regions that have increased their weight in the national employment rate are located in the Mediterranean area, plus the Canaries and Madrid. In consequence, there are four regions where employment concentration is high and where GVA is also high (namely, Madrid, the 2 archipelagos, Cataluña and the Valencia Community);

4. **Regional GVA variations.** The first aspect is that the regional index of GVA per capita (1980-1995) in the less developed autonomous communities falls in relative terms, while it increases in the more developed autonomous communities. This shows the lack of convergence between autonomous communities in the period under consideration.

In conclusion, the evolution of production, employment and population, points to one of the key factors of regional behaviour between 1980 and 1995: the **stagnation of interregional economic convergence.**

2.2 **Interregional convergence in GVA per capita and GVA per person employed**

The design and implementation of regional policies in Spain has originated from the necessity to reduce differences within the country, under the conviction that the market alone cannot resolve these issues. The key results using the s and b convergence are summarised as follows:

1. The absolute stabilisation of the dispersion (sigma) indicator shows that disparities in Spanish regions have demonstrated neither an improvement nor a worsening, although since 1988 there has been a slight worsening;

2. These results are consistent with those in other studies showing that the process of convergence in Spain has stopped since 1981;

3. The regional behaviour can be grouped in three types: divergent behaviour of a significant number of regions; regions with neutral behaviour; and regions with slightly convergent behaviour (only 4 regions);

4. The process of convergence of GVA per person employed was produced with major intensity between regions with similar development rates, pointing to a phenomenon of polarisation (groups or “clubs” of regions);

5. There is no beta convergence in the GVA per capita between Spanish regions. Although some autonomous communities have the “advantage” of being less developed and for this reason have more growth potential, they do not grow fast enough in the longer term. This is due to a worse equipment of production factors, their regional productive structure, localisation problems, and other intangible elements like entrepreneurial culture, capacity and skills level of human resources, etc, which prevent less developed regions to take advantage of their less developed status. On the other hand, regions with a higher GVA per capita tend to grow faster in the long term.

In order to determine the levels of GVA per capita or productivity in the long-term, it is important to analyse a variety of factors of diverse nature. The regional behaviour of Spanish regions can be explained by factors that are related to the regional productive structure and other elements, like the education level of the population, the regional specialisation in medium or high technology industries, the specialisation in agriculture, etc, which can be translated into the differential growth of employment, production and productivity at regional level.

Demographic tendencies and differences in employment rates were used as indicators for the designation of assisted regions under Article 87(3)(c). Studies like this may have played a role in stressing the significance of regional disparities in Spain and their stagnant nature in order to think through carefully the choice and implementation of regional aid.
The time-series of per capita income in the regions of Spain are tested for consistency with the neoclassical growth model’s prediction. The results for 1955 to 1996 show that disparities persisted among Spanish regions with a substantial declining trend up to 1979 and a slight rise thereafter.

The principal causes of the process of regional convergence in Spain during 1955-1991 were, on one hand, the intense movement of productive factors, particularly that of population, and, on the other hand, the progressive approximation of sectoral productive structures, which led to a growing equality of average regional productivities.

The slow down of regional convergence after 1979 was due to:
• the end of migratory movements, combined with the presence of growth in unemployment rates in all regions, although with notable differences between them;
• the reduction of regional income differences;
• the slow down of the process of homogenisation and specialisation in regional productive structures.

The causes that explain the actual disparities are, mainly, the differences in productivity that still exist and, especially the differences in occupation rates.

Although the regional economic convergence of the period 1955-1979 can be explained with neoclassical growth models, the explanation of what happened after 1979 is much more complex. The existence of important regional differences in employment rates and in rates of occupation suggests the following:
• either that there are institutional factors, including the redistributive income policy, prevent or reduce the movements of population;
• or that different Spanish regions have different equilibrium points, due to the vast range of factors that endogenous growth models take into account.

Such models present similar findings to the previous one and may have influenced the policy of regional aids with the aim to reduce the persistent regional disparities in Spanish regions.

This paper aims to evaluate the role of regional economic incentives in Andalucia. The policy of regional economic incentives seeks to reduce regional differences based on the assumption that the market mechanism alone is insufficient to reduce disparities. The system of regional incentives aims to create the necessary conditions in areas with problems so that they can compete with the rest of the territory, while at the same time it aims to influence entrepreneurial investment decisions related to the location of enterprises.
2.1 Regional economic priorities

Over the last two decades and in the context of regional economic development the aim has been to encourage industrial businesses to locate in less developed regions with a weak industry or in regions with old industrialisation, with restructuring problems in their economic sectors. The incentives used for this purpose included fiscal or financial incentives to private entrepreneurs with the final aim to improve the socioeconomic situation of these regions in the country. The principal objective of the government was the creation of new employment posts in defined development sectors.

The system of regional incentives constitutes an essential instrument of regional development policy, for the following reasons:

- it represents a stimulus for business investments and complementary finance;
- it is instrumental in the creation of new jobs;
- it concentrates in less developed regions while excluding others (distributive action);
- it also plays a redistributive role at interregional and intraregional levels.

The selection criteria for the regional incentives system comprise:

- financial commitment (minimum 30% of investment of stakeholders);
- market survival (analysis of competitiveness of the enterprises in question);
- adequate technology (must have adequate technology to compete);
- net wealth (support to some enterprises should affect net wealth in the area);
- financial solvency.

2.2 Results of the system of regional incentives in Andalucia

The principal results of the regional incentives system are summarised as follows:

1. Employment creation has been significant and cost effective, since the value of jobs created far exceed the cost (the value of the subsidy);
2. Strong disparity between the most benefited (Cádiz) and the least benefited province (Jaén). Western provinces were the ones that benefited most at the expense of the eastern provinces of Andalucia, a fact that corresponds to the higher or lower rate of industrialisation respectively in these areas;
3. In terms of the types of projects subsidised, the majority concerned new premises (new investments), which represent the highest investment rates and the highest subsidy granted as well as the highest compromise in terms of job creation. New investments receive a higher subsidy rate, followed by investments in extension and then those related to modernisation;
4. In terms of financial size, small projects represent 35% of the total approved for regional incentives although they represent only 4.13% of the investment and 4.75% of the subsidy. On the other hand, large projects represent less than 1% of the total but represent 29% of the investment and 32% of the subsidy;
5. Worth noting that generally small, more labour intensive projects, create less qualified employment, lead to less indirect employment and do not incorporate advanced technologies. Their impact on regional development is weak and create less wealth.

2.3 Implications on which sectors to support

The above results were analysed with a view to assess which sectors should receive preferential treatment in terms of incentives.
1. Incentives should aim at key, strategic sectors\(^\text{13}\). This would stimulate growth in other sectors and in economic growth in general through multiplier effects. However, a more detailed analysis of key strategic sectors shows the following:

a. there is little correlation between sectors that receive incentives and those regarded as key for the region;

b. on the other hand, there is a more clear correlation between strategic sectors and those that receive incentives. 46% of the subsidy is identified with those sectors that will determine regional growth;

2. Regional incentives are more appropriate for sectors with more capacity to incorporate technological innovation in their productive structures;

As a result, it is desirable to have a major concentration of incentives in the more dynamic sectors of the Andalucian economy. The incentives policy on modernisation of technology should be more explicitly selective. It is preferable to continue the efforts to support traditional sectors while at the same time putting more attention to those projects that opt to incorporate very advanced technologies.

2.4 Key conclusions

The main conclusions from the above are the following:

- The Regional Incentives System can be considered as an appropriate instrument for the regional policy in Spain, leading to enterprise creation, as well as extension and modernisation of existing ones;
- The system is designed for those entrepreneurs that start their activities and has not managed to attract enterprises outside Andalucia to locate there;
- The system benefits more the medium size enterprises at the expense of small ones which need more help;
- The concentration of incentives in strategic sectors has been optimal, although it is suggested there should be better coordination between central government and the Autonomous Community of Andalucia in order to improve further the efficiency of support on strategic sectors.

The Regional Incentives System is a key instrument of regional policy in Spain and its implications and results have been taken into account in the selection of assisted areas under Article 87(3)(c).


1. General summary

\(^{13}\) Key sectors are those currently important sectors in the regional economy. Strategic sectors are those with a high potential for growth.
The Regional Incentives Law was conceived in Spain as an incentive measure of investments and employment in the different autonomous communities that were less favoured or undergoing economic difficulties, with the aim of reducing the differences in terms of employment opportunities and levels of income. The study carries out an analysis of the influence of that instrument of regional economic policy as a motor for new employment in Andalucia and Cantabria, two regions with very different economic and social realities, but with a common problem: high unemployment rate.

It is important to stress that the study makes it explicit that there has been very little development in Spain of evaluation studies in the field of regional policy. As a consequence, there are scarce results on the efficacy and efficiency of different regional policy instruments.

The methodology used includes two measures of efficacy of to evaluate the instrument:

a. Shift-share analysis to assess whether both Communities posses the industrial structure that can generate employment;

b. Regression analysis to explain the annual change in employment rates during the period in question (1988-1995) that the regional policy has been applied. In this way, expected employment and actual employment are compared, analysing whether the regional incentives system has had a positive or negative influence on employment.

2. Detailed findings

Results are presented separately for Cantabria and Andalucia. Key findings for Cantabria include:

1. The shift-share analysis shows that Cantabria does not possess a favourable industrial structure to generate new employment. Only a small number of activities managed to reach a higher employment level, while only two industrial activities (industrial extraction of water/energy and mechanical machinery) analysed in the study achieved a growth in employment that was higher than expected;

2. The two industrial activities that created most employment did not receive regional incentives under the Law for regional incentives. That leads to the conclusion that enterprises in Cantabria did not grow as expected despite the support received under the regional incentives law and that their behaviour was less competitive compared to the national average;

3. According to the regression model, the creation of employment in Cantabria was not a consequence of the regional incentives policy. What this policy achieved was to slow down the fall of employment rather than contribute significantly to its creation.

Key findings for Andalucia include:

1. Andalucia does not have an industrial structure likely to create new employment. The results here are similar to those for Cantabria;

2. The industrial sectors that created more employment then expected (extraction industries, graphic arts, mechanical equipment, electrical equipment and machinery) are not amongst the most subsidised. On the contrary those industries that received most support under the regional incentives law (eg, agro-food businesses, construction of vehicles and other transport equipment) are the ones that created less employment than expected. In this sense, despite the creation of new posts in Andalucia, real employment level was reduced in the six years under consideration. As a consequence it seems that the subsidies given to certain industries have mainly served to maintain jobs affected by the regional incentives projects in Andalucia;

3. Support received under the regional incentives was not translated into an effective mechanism for the creation of new jobs. It seems that support went mainly to industries that the region specialises in (agro-food, chemicals, etc), maintaining in this way the weight these industries traditionally have in employment in the area.
Overall, although regional incentives can be an effective instrument for job creation, the absence of an industrial structure prone to generate employment reduces the efficacy of this instrument to achieve its objective of job creation. In conclusion, the regional incentives law in both Communities did not substantially support the creation of employment. It mainly slowed down the reduction in employment in certain industrial sectors.

The conclusions of this study are important for the selection of assisted areas for regional aid, since they highlight the neutral impact that regional incentives have had on the regions under consideration. The choice of regions and aid intensities may rectify the weaknesses of the regional incentives system application.

Finland (FI)


This evaluation describes the situation and impact in Finish Objective 6 regions, which can justify the choice of these regions for assistance under Article 87(3)(c). In addition, the choice of indicators reflects the key issues identified in the evaluation, namely out-migration and population growth, with their negative effects on employment and growth.

We focus here on the findings of this report which relate to the impact and efficiency analysis of the Objective 6 programmes. Impact can be grouped into the following categories, which are clearly linked (for example out-migration affects employment and regional demand, which in turn affect new firm creation):

- Impact on the development of population: a key issue is the ever-increasing out-migration from the Objective 6 region to areas of fast economic growth, due to:
  - the rapid economic growth in Finland which offered plenty of job opportunities outside Objective 6 regions;
  - the economic crisis of the state and public sector, who was the most important employer in Objective 6 regions, cut down severely employment opportunities in the public sector. As a result many unemployed left the region in order to find jobs in other parts of the country;

Out-migration hits first and foremost the rural municipalities. A few urban centres managed to sustain levels of population whereas remoter areas have not. The areas suffering the most are located in the northernmost parts of the country. According to statistical information, the Objective 6 programme has not been able to combat out-migration.

In conclusion, although the Objective 6 programme had a positive impact by reducing the number of people who would have left the areas had it not been for the programme, it was not able to stop the negative development, it merely decreased its impact.

Possibly the choice of areas for assistance under Article 87(3)(c) will address this issue by offering incentives for people to stay or return to these areas.

- Impact on job creation and employment:
  - absolute figures have risen and new firms were created;
  - however, the region did not reach the national level in terms of employment, on the contrary, the gap in employment between the Objective 6 region and the country as a whole seems to widen at an accelerating rate;
the falling income levels of the population due to the public sector cutbacks (as seen above) led to a situation in which demand for private services was not growing;
- in addition, the emergence of new companies was difficult and the existing ones experienced a lack of growth caused by lack of market demand;
- the unemployment rate fell by 20%, however, when compared to the whole country (fell by 46%) it demonstrates that the Objective 6 region lags behind the rest of the country.

Unemployment rates and growth of employment in industry are some of the indicators used for selecting assisted areas. This is compatible with the results of this evaluation, since it seems that job creation and unemployment constitute serious regional problems.

- **Impact on the promotion of entrepreneurship:** the programme affected the establishment of quite many new companies. Compared to the number of inhabitants in the region the number of new firm start-ups was quite high. Public intervention included education, consultation and investment aids. However, the creation of new firms and jobs faced the following problems:
  - the income level of many groups of people had fallen due to higher taxation, unemployment or decreasing farming income. The growth rate of income level in the Objective 6 region was less than half that of the whole country;
  - rapid out-migration affected regional demand for goods and services, therefore, markets were growing slowly and possibilities to start new businesses were limited;
  - expertise was leaking out of the region and thus out-migration increased further.

- **Impact on SME development:**
  - it benefited mostly companies who already had quite high levels of expertise. This reflects the same issue evident in training. Just as those people with lower standards of knowledge are the least eager to attain training, similarly, those companies with the lowest standards of expertise are the least interested in developing their actions;
  - direct actions like investments aids and training for employees and indirect actions like improvement in the infrastructure in the region, had a significant role in business development in the objective 6 region;
  - however, these benefits have not been fully taken advantage off due to the generally unfavourable economic circumstances.

The designation of assisted areas does not include any specific indicators that reflect the need to promote entrepreneurship and SME development, except maybe the unemployment rates or the employment growth in industry?

- **Impact on regional policy making:** one of the most important impacts was the birth of a new regional development model, moving away from the bureaucratic and sectoral organisation structure of the Finish administration towards a more cooperative approach. This involved:
  - increased cooperation amongst ministries;
  - regional authorities acting together in favour of regional development;
  - open dialogue and new ways of communication;
  - state administration, local and regional authorities and representatives of other groups, private companies, etc working together with common regional development objectives;
  - creation of new partnerships inside regions or between regions, between administration units, among administration units and third sector actors, including participation of the agricultural sector and private sector companies.

This participative or cooperative approach can play a role in ensuring efficient implementation of state aids in assisted regions.
Other impacts include:
- education and counselling improved capabilities of the unemployed and also for those who worked in different companies and farms;
- ideas for new businesses were introduced, for example, many farms took first steps towards new ways of earning their income or improving their efficiency.

Concerning the choice of assisted areas, the indicator related to the percentage of active population in agriculture may reflect the attractiveness of agriculture in those areas where new ideas were introduced and demonstrate where disparities exist.

France (F)


1. Objectives and context

Within the context of territorial arrangement and territorial development, the regional programmes (CPER and DOCUP) in France are important for aiming to combine the objectives of the State and Europe.

This study analyses the measures of these regional programmes and its objective is twofold:
- to constitute an initial knowledge base for the DOCUP and CPER programmes for the period 2000-2006;
- to compare the content of the programmes between procedures and between regions.

The sub-programmes supported by CPER and DOCUP comprise regional (22 regions) and interregional programmes (5 programmes), plus 4 regional programmes for the French regions of Guadeloupe, Martinique, Guyane and Reunion.

2. Results of the study

The objectives of the programmes combine three elements: focus on specific objectives, complementarity between the two programmes for each objective and co-finance (state, private sector, EU) of actions under each objective.

With respect to specific objectives, most outstanding ones are those related to the development of enterprises, transport infrastructures, capacity building for employed people, support tourism activities, support for new technologies and innovation.

Five objectives, in particular, were invested in all regions in question:
- promote enterprise development and maintain their activities;
- support tourism activities and commerce;
- support research in innovation, higher education and development of new technologies;
- reinforce the protection of the environment;
- develop actions in favour of education, basic and continuous education (young, unemployed or inactive) and promote social and labour market inclusion.

The following objectives received most finance and were common in the two regional programmes:
In terms of co-finance, the state and private sectors contributed in addition to the EU. The national public co-finance was generally higher than that received by the European funding, while the private sector contribution was quite significant for measures related to “Enterprise development”, “Research, innovation and higher education” and “Protection of the environment”.

**Horizontal objectives** that were given priority in the two regional programmes comprise (ranked in terms of importance assigned to them):
1. strong emphasis on the reinforcement of employment in the region;
2. development and reinforcement of partnerships;
3. environmental issues and encouragement of quality production and services;
4. territorial integration and fight against exclusion.

**Interregional comparisons** of objectives and measures supported by the two programmes take into account regional problems and disparities. It is shown that each regional programme responds to specific local conditions (i.e. the socio-economic profiles of the regions concerned) and incorporates a strategy that is consistent with other relevant programmes and policies.

Interregional comparisons are then presented separately for each specific objective as well as for each horizontal objective. Interregional comparisons are carried out in relation to the national average. The most distinguishing result from these comparisons is the **presence of moderate to strong synergy and complementarity** between the two regional programmes for most of the objectives supported. We present here a few representative examples:

- The objective to “promote enterprise development and maintain their activities” is highly ranked by the two programmes in most regions. The DOCUP programme ranks this objective as 1st in its priorities, while the CPER ranks it as 5th. One fourth of the targeted regions show strong synergy (positive convergence) and complementarity. The public sector has shown high interest in this objective;
- The objective to “support tourism activities and commerce”. On average in the regions concerned, the DOCUP programme ranks this objective as 2nd in its priorities, while the CPER ranks it as 10th. In one fifth of the regions there is strong synergy;
- The objective to “support research in innovation, higher education and development of new technologies” is highly ranked in most regions, with the CPER ranking it as 2nd in its priorities and the DOCUP ranking it as 3rd. There is also strong synergy and complementarity in most regions;
- The objective to “develop actions in favour of education, basic and continuous education and promote social and labour market inclusion” is also regarded as important by all regions since they all invested in it. The CPER programme ranks it as 7th and the DOCUP as 8th in their priorities. Complementarity and synergy are also quite strong.

Some examples of interregional comparisons with respect to horizontal objectives include:

- The objective “development and reinforcement of partnerships” has been promoted strongly at national level. Two regions invested particularly high in this priority, while the majority of the rest have invested positively in this objective;
The objective “reinforcement of employment in the region” was the most distinguished one, with all regions investing in it and showing strong convergence between the two regional programmes. It is worth noting that the two regions that devoted most funding to this objective were those with the lowest GDP per capita (namely, Limousin and Corsica).

This study constitutes an inventory of choices of regional programmes in France. It shows what the emphasis has been in terms of objectives/priorities in each region. It also covers the same period as regional state aid (2000-2006). Its conception may have therefore contributed to the choices made for regional state aid.

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### Greece (EL)

“Regional Convergence in Greece in the 1980s: An Econometric Investigation”, Leo Michelis, Department of Economics, Ryerson University; Athanassios Papadopoulos and Gregory Papanikos, Department of Economics, University of Crete.

1. **Purpose and methodology**

The purpose of this study was to evaluate empirically regional convergence in Greece during the 1981-1991 period of participation in the European Community. Census data at NUTS III level of regional desegregation (51 regions) was used.

Four different dependent variables were used to measure convergence:

- per capita GDP;
- per person employed GDP as a proxy for the average productivity of labour;
- per person employed taxable income by region as a proxy for the region’s income;
- a measure of welfare using an index based on per capita electricity consumption, number of automobiles, telephones and number of per capita bank deposits.

Three model specifications were used to test the hypothesis of regional convergence, using the well know measures of convergence, the sigma and beta convergence (see also a study for Spain above).

2. **Regional policy in Greece**

The following main events shaped the policy setting in Greece:

- stabilisation policies to fight inflation at the expense of rising unemployment;
- the enlargement of the Community from nine to twelve members in connection with the “cohesion” concept described in the Single European Act;
- entrance of Greece in the EEC as a full member, which facilitated the direction of Community funds towards the less prosperous regions of the country and contributed to the improvement of agricultural incomes;
- the implementation of the Single European Act which set in motion policies which emphasised convergence across the borders of the European economies.

The key characteristics of Greek regions can be summarised as follows:

- high proportion of employment in the primary sectors of the economy, with the agricultural labour force representing a high percentage of total employment in Greece;
- economic growth and industrial employment concentrated in four regions, namely, Attica, Western Macedonia, Central Macedonia and Central Greece;
• the diffusion of growth to the rest of the country was limited, due to the lack of infrastructure, mainly in the transport and communication sectors;
• the development of Attica fostered its urbanisation but the decade of 1981-1991 revealed cumulated problems of low productivity and high degree of labour force concentration in this region. This resulted in an increase in unemployment and a fall of the region’s share of GDP;
• Attica’s drop in production favoured the other Greek regions, and light industries, food processing, clothing and leather products and tourism became the main source of employment creation.

3. Incentives of regional development in Greece

The high degree of industry and employment concentration in Attica did not leave adequate profit margins for investment in this region and the low productivity in combination with a series of incentive laws gave the opportunity for initiatives to be undertaken by entrepreneurs and labour at a regional level.

The central incentive that seems to have played an important role was a Law which divided Greece into four greater regions. Incentives were given if investment was taking place in manufacturing, shipbuilding and repair, new technology industries and tourism. The incentives had the form of subsidies, low interest payments by the public, increased depreciation and tax deductions for profits. Priority was given to industries willing to relocate from the Attica region.

The main challenge for the 1990s was to maintain the momentum for economic convergence and help the diverging regions to turn around.

4. Analysis of the empirical results

Analysis of the σ-convergence in all five variables (described above), used to measure the economic performance of a region, shows that during the period in question there was convergence among the 51 Greek regions. In other words this measure of dispersion indicates a reduction in the inequality rate between the different Greek regions.

Analysis of the β-convergence shows that all regions experience convergence. In other words it shows that less developed regions registered higher growth rates than more developed regions in a way that the phenomenon of “catching-up” was produced. However, there were significant differences regarding the speed by which convergence occurred depending on the variable used to measure economic performance.

Key results include:
• It was shown that what is important for convergence is not per capita output convergence but labour productivity convergence;
• Channelling of EU funds to less prosperous regions of Greece in the 1980s contributed positively to raising welfare standards in the regions analysed;
• However, compared to other studies which use per capita GDP, the results indicate that Greek regions were lagging behind in the convergence process since they were actually converging at less than one per cent per year. When the taxable income variable was used, then the speed of convergence increases dramatically, but the results should be interpreted with caution because for a number of professional people (lawyers, doctors, accountants, merchants) the government uses “objective” criteria to determine taxable income. The convergence of income reported for tax purposes can be considered as convergence of tax evasion which is widespread in Greece!
Overall, the evidence does reject the idea of regional convergence. The estimated convergence coefficients are relatively similar across the three model specifications, but they vary with the dependent variables (described in section 1 above) used to measure convergence.

Despite the fact that this is a relatively old study, its results are valid for the 1990s where the situation did not change dramatically and where the same incentives law prevailed. Many of the characteristics of Greek regions are still the same, distinguishing the increased concentration of economic activities and over-population in urban centres (with a significant weight held by Attica and Thessalonica), resulting in higher unemployment, while outside urban centres there is high concentration of the labour force in agriculture and services (mainly tourism). Indeed, for measuring regional disparities and justifying aid intensities for regional state aid, Greek authorities used GDP, unemployment and population growth.

Ireland (IRL)


This chapter is very relevant for Regional State Aid as it describes the key issues/problems related to regional disparities, the key priorities and objectives of regional development policies and links those to the application of regional state aid in the productive sector.

It uses input from a number of key studies which set the framework for the National Development Plan 2000-2006, namely, the “National Investment Priorities for the period 2000-2006”, two consultancy studies on the “Development Strategies 2000-2006 for the BMW and S&E regions” respectively and the study produced by the Western Development Commission “Blueprint for Success- a Development Plan for the West 2000-2006”.

1. Regional issues, problems and disparities

The regionalisation arrangements in Ireland have resulted in the designation of two regions for Structural Funds purposes:
• the BMW region which has retained Objective 1 status for the full period to 2006 and;
• the S&E region which will qualify for a six-year phasing out regime from Objective 1 Structural funds up to the end of 2005.

The above mentioned studies set out in detail the different socio-economic characteristics of these regions and the key issues pertinent to the regional development policy framework. Those can be summarised as follows:

• **Population structure**: the S&E region is characterised by a predominantly urban population concentrated in a small number of urban centres, while the BMW region has a more dispersed population living mainly in small towns and rural areas;
• **Population growth** in recent years has concentrated in urban centres;
• **Gross Value Added** (GVA): the State’s improved economic performance has been unevenly distributed between the S&E region (80% of total GVA) and the BMW region (20% of the total GVA);

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14 The report “Development Plan for West 2000-2006” of the Western Development Commission has also been studied and relevant issues included here. No separate summary of that report is provided as it refers only to the West region which is an Article 87(3)(a) region.

15 BMW region refers to Border, Midland and Western region, while S&E region refers to Southern and Eastern region.
• **Composition of GDP:** there are important regional variations in the composition of GDP, with the S&E region having a higher share of GDP for all sectors;

• **Employment and earnings:** there significant regional variations in employment, skills and qualifications and earnings across the two regions, with the S&E region again scoring better then the BMW region in terms of share of the labour force, employment ratio, unemployment rate, third level qualifications and average earnings. These outcomes are, in part, due to the fact that the larger production units, higher technological sectors and third level institutions are concentrated in Dublin and the existing larger urban centres which are primarily in the S&E region. Moreover, larger agricultural units producing higher value added goods are more concentrated in the S&E region;

• **Disadvantaged areas and poverty:** poverty and disadvantage are evident throughout both regions. Marginalised communities exist in urban and inner-city areas, particularly in Dublin, Cork and Limerick and high concentrations of low income groups (particularly the long-term unemployed and lone parents) in public housing estates. There are also marginalised rural communities throughout the country.

All the indicators used for designating areas eligible for regional aid, namely earned income, relative degree of urbanisation, employment in manufacturing, services and agriculture and unemployment rate and structure, are **consistent with and reflect** the above mentioned problems and disparities.

2. **Priorities for regional development policies**

In order to address the above issues, the key priorities for the period 2000 to 2006 are summarised below:

For the **S&E region**:

- Consolidate and build on the region’s recent economic performance, especially regarding employment and reductions in long-term unemployment;
- Address urban congestion and general bottlenecks to growth, particularly as regards economic and social infrastructure and human resources;
- Further develop counter-balances to Dublin, relieving the pressure on the capital and its hinterland, and distributing growth more widely throughout the region;
- Support further development of agriculture, agri-business and the seafood sector;
- Promote social inclusion in deprived rural and urban areas;
- Maintain a viable rural economy.

For the **MBW region**:

- Increase the potential of the region to act as a counterbalance to the S&E region, especially Dublin, and pursue more balanced growth within the region;
- Increase the presence in the region of the key drivers of sustainable economic growth, notably in the productive sector;
- Improve the quality of the region’s economic and social infrastructure and human resources;
- Build on the region’s natural resource base especially in the areas of agriculture, tourism, the seafood sector and rural enterprise;
- Promote rural and urban social inclusion.

3. **What is required to achieve the objectives of regional policy**

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16 See below for the link of this priority with regional state aid.
Given the above disparities and resulting priorities the Irish government’s overall objective for regional policy (expressed in the National Development Plan) is to achieve a more balanced regional development in order to reduce the disparities between and within the two regions and to develop the potential of both to contribute to the greatest possible extent to the continuing prosperity of the country.

At the centre of the regional development strategy lies the concept of Gateways, which are centres that have a strategic location relative to the surrounding territory, possess good social and economic infrastructure and support services and have the potential to open up their zones of influence to further development by providing transport links with contiguous zones. The common attribute of Gateways is that they are centres which are strategically placed to drive growth in their zones of influence, generating a dynamic of development which embraces complementarity between city, town, village and country.

Key prerequisites for achieving the objectives of regional policy through the concept of Gateways, are summarised below:

- Facilitate further development of the existing major Gateways and the focused development, as Regional Gateways, of a limited number of strategically-placed centres which are already displaying potential to:
  - achieve strong and sustainable economic growth;
  - promote such growth within their zones of influence;
- The choice of locations for development of Regional Gateways must be based on their potential to stimulate growth in the towns, villages and rural areas;
- The Gateway approach will help create the critical mass to spur growth in the designated centres and in their wider zones of influence;
- Full exploitation of the potential of smaller towns and villages and rural areas to ensure that they are attractive as locations for commercial activities giving employment and as places for people to live;
- The Gateway approach must be complemented by multi-sectoral policies and coordinated investment in areas such as transport, education and housing, to ensure that these locations benefit from economic growth and that local economic activity in these areas provides sufficient opportunities for local communities to secure gainful employment;
- In order to foster national competitiveness and balanced regional development, the investment needs of existing large urban centres will have to be comprehensively addressed.

4. Relevance of regional policy for regional state aid

The above pre-requisites for achieving the objective of regional policy are translated into Operational Programmes, where investment within and between regions takes full account of regional development policy. In particular, Operational Programmes focus on the following areas:

- Economic and Social Infrastructure, with major investments planned in transport, environment, energy and telecommunications;
- Employment and Human Resources, with investments focusing on active employment measures, education;
- Regional Operational Programmes, focusing on non-national roads, urban and village renewal, social exclusion and investments in remote rural areas;
- **Productive Sector.** This is the sector **relevant for regional state aid**:
  - in the **BMW region** (eligible for assistance under **Article 87(3)(a)**), a key objective is to increase the level of new foreign indigenous investment. Under the arrangement for State Aids in the period 2000-2006, grant aid of up to 40% of investment for enterprise (plus 15% for SMEs) will be permissible in this region as an Objective 1 region. In providing for public investment in both foreign and indigenous industry and services, maximum use will be made by the industrial promotion agencies of the State Aid differentials to encourage more balanced regional development. In particular, IDA Ireland will seek to ensure that, in the period 2000-2006, at least 50% of all new jobs from green-field projects will be in the BMW region;
  - in the **S&E region** (chosen for support under **Article 87(3)(c)**), particular focus will be on the less prosperous sub-regions. The maximum aid rates permissible under the Regional Aid Guidelines for enterprises in the S&E region as an Objective 1 region in transition are 20% plus 10% for SMEs, although in areas outside Dublin this reduced rate will only apply from 2003;
  - in addition significant assistance will be given to both regions under this Operational Programme for research and development and aid to the agriculture sector;
  - direct investment in the productive sector will be complemented by a major further programme of decentralisation of State Agencies to the regions from the Dublin area.

**“Sources of Regional Divergence in the Celtic Tiger: Policy responses, Eoin O’Leary, Department of Economics, University College, Cork, Ireland.”**

1. **General summary**

This paper was presented to a meeting of the Statistical and Social Inquiry Society of Ireland on 7 November 2002 at the ESRI, Dublin. It presented new evidence on the sources of living standards divergence among Irish regional authority areas during the so called “Celtic Tiger” boom period of the 1990s, which has been associated with unbalanced regional development. The paper shows that strong regional living standards divergence during this period was driven both by the emergence of the ‘demographic dividend’ and by productivity. Productivity divergence was in turn driven from the manufacturing sector. It then considers the appropriate response to Ireland’s regional policy dilemma of how to address the problem of regional imbalance without compromising national growth and competitiveness. In contrast to the National Development Plan (NDP) 2000-06 where balanced regional development is a key objective, this report recommends that policy be targeted at improving regional growth and competitiveness in regional authority areas, instead. Based on the results of this paper, it is argued that future growth in regional and therefore national living standards hinges on continued productivity growth in internationally competitive industries based in Irish regions, as demographic factors and structural change are unlikely to continue playing prominent roles.

2. **Specific results pertinent to regional policy**

2.1 **Presentation of the evidence**

This paper presents new evidence on the sources of living standards convergence (divergence) among the Irish regional authority areas since 1960 and especially during the “Celtic Tiger” boom of the 1990s. This later period has been associated with **unbalanced regional development or regional divergence**. Data sources include the Central Statistics Office (CSO).
For the period 1993-1999 (“Celtic Tiger” boom), statistical analysis shows the following sources of regional divergence:

- Overall regional living standards diverged in that period by 4.4% per annum. The divergence was driven by productivity, the employment rate and participation rate (the ratio of labour force to the total population of the region concerned). In particular:
  - the South-West and Dublin/Mid-East were the fastest growing regions in terms of living standards with the Midlands and notably the South-East growing slowest;
  - in terms of productivity, the performance of the South-West stands out while that of the South-East and the Midlands was very sluggish;
  - with regard to demographic factors Dublin/Mid-East benefited the most from the improvement with the South-East benefiting the least.

This confirms the existence at the end of the 1990s of a regional policy dilemma, whereby strong national convergence problem has coincided with the emergence of unbalanced regional development, mostly due to very strong growth in Dublin/Mid-East and the South-West.

- When looking at sectoral productivity, especially in Dublin/Mid-East and the South-West, manufacturing remained the fastest growing sector, with both agriculture and services exhibiting lower productivity growth:
  - the rate of aggregate productivity divergence strengthened significantly and was driven by manufacturing with the other sectors converging weakly;
  - one of the chief factors explaining productivity divergence during the ‘Celtic Tiger’ boom was productivity growth in the internationally competitive, mostly foreign-owned multi-national companies in the high-technology computer, electronics and pharmaceutical sectors concentrated in Dublin/Mid-East and the South-West.

- When looking at structural change, the evolution of sectoral employment shares reveals that changing employment shares may contribute to aggregate productivity growth over time if the shift is from low productivity sectors, like agriculture, to high productivity sectors, like manufacturing. It has therefore been hypothesized that structural change may have had a convergent affect on aggregate productivity, as regions with relatively low productivity levels may catch-up on productivity leaders, as their greater pool of relatively unproductive agricultural workers are re-allocated to higher productivity sectors. It may be expected that this effect may lessen over time as the pool of agricultural workers in regions declines. More specifically:
  - the Dublin/Mid-East region is clearly at a more advanced stage of development, with the services employment share increasing through time, a declining share in manufacturing and a very small share in agriculture;
  - during the ‘Celtic Tiger’ boom the effect of structural change on aggregate productivity growth remained very small, with the poorer regions benefiting the most;
  - over the whole period, as the share of workers in agriculture declined, so did the convergent effect of structural change on the degree of aggregate productivity convergence.

2.2 Implications of the evidence for regional policy

The increased regional divergence in living standards during the “Celtic Tiger” boom was driven as seen above by the “demographic dividend” and by productivity. Productivity divergence in turn was driven by the manufacturing sector.
Hence, increased regional divergence at the beginning of the new millennium put regional issues back on the policy agenda, with the inclusion for the first time of balanced regional development in the NDP 2000-2006. The key issues facing policy makers in order to bring about regional balance without compromising national performance are the following:

- The chief determinant of national growth and competitiveness will be the rate of productivity growth of internationally competitive industry in both the manufacturing and service sectors;
- Based on the results of this paper, the productivity performance of these industries will also determine the degree of regional balance or convergence;
- Similar to other industrialized countries, regional and national performance in Ireland will be driven in the next twenty years by productivity in the key traded sectors. In particular, regional convergence of living standards over the next two decades depends on higher productivity growth in sectors such as manufacturing for relatively low productivity regions, such as the Border, the Midlands, the West and the South-East.

The paper claims that if it is assumed that maximizing national growth and competitiveness is the overriding national objective, then the role of regional policy should be to foster an environment in which productivity growth in traded industries located in the regions are as high as possible. This comes in contrast to the NDP which stresses balanced regional development. The NDP is also criticised for delays, lack of an explicit spatial strategy, little regional level involvement in institutional arrangements and failing to provide an environment in which internationally competitive industry may be embedded in Ireland’s regional economies.

Thus the paper concludes that future national and regional living standards growth will hinge on continued productivity growth in internationally competitive industries based in Irish regions. It therefore suggests that the objective of balanced regional development be replaced by improved regional growth and competitiveness. This could involve strengthening the existing Regional Authorities, who would be required to:

- build close partnership with industry;
- be given responsibility for formulating strategies and proposing policy initiatives for their regions;
- supersede local authorities as the primary sub-national authority for economic planning;
- this would involve re-organizing government departments and agencies to work through the regions and initiating local government reform;
- if necessary, distributional objectives could be pursued by central government using separate policy measures.

Although the scope of this paper is wider than what is purely related to regional state aid, it can have some implications for the allocation of state aid to regions. Improved regional growth and competitiveness are not incompatible with the objectives of regional state aid, for example “…developing the less-favoured regions by supporting investment and job creation in a sustainable context” or “…promoting the expansion, modernisation and diversification of the activities of establishments located in those regions …”\(^\text{17}\). In particular, one of the implications for regional policy mentioned above (“regional convergence of living standards over the next two decades depends on higher productivity growth in sectors such as manufacturing for relatively low productivity regions, such as the Border, the Midlands, the West and the South-

\(^{17}\) See regional state aid guidelines.
East”) takes into account that regional state aid seeks to support less developed, less favoured regions.
In addition, the indicators chosen for the designation of Article 87(3)(c) areas, namely, earned income, sectoral employment (in manufacturing, agriculture and services) and unemployment rate and structure, can be used for measuring regional convergence (divergence).

“A FAS review of Irish labour market trends and policies”, FAS, Ireland

1. General summary

This report contains a first chapter which describes Irish labour market trends and prospects. The second, and main, chapter examines the implications of these developments for policy, and makes recommendations for future development. These recommendations derive from the analysis of labour market trends and needs, as well as national and European policy directions. A third chapter contains a special analysis of two areas: the impact of the 'Employment Action Plan' referral process, and FÁS's contribution to the National Development Plan's infrastructural objectives.

2. Regional policy implications

The paper claims that one of the explicit objectives of the EU is "(reducing) disparities between levels of development of the various regions and the backwardness of the least favoured regions, including rural areas". Nevertheless, policy responses that may be appropriate at EU level can often conflict with the short-term needs of a region.

Both equality and economic considerations should be taken into account for minimising inter-regional differences, for example:

- **Equality considerations**: in response to the 2001 Employment Action Plan, the European Commission and Council recommended that "in the context of the Spatial Strategy programme, Ireland should address imbalances in employment, unemployment, job creation and human capital endorsements between various areas";
- **Economic rationale**: large and persistent regional disparities in unemployment tend to raise the Non-Accelerating Inflation Rate of Unemployment (NAIRU) as inflationary pressures in regions with below average unemployment spill over to regions where unemployment is relatively high. This strengthens the case for targeting active manpower policies regionally.

In this context, increasing education and training programmes in disadvantaged regions will not in and of themselves lead to re-employment opportunities. There may be a spatial mismatch with employment opportunities often absent from the very areas where they are most needed. For example:

- Clusters that have high growth potential, such as the office machinery sector, are located in areas where unemployment is low. This implies that there might not be sufficient employment opportunities for workers who have up-skilled in these sub-regions;
- Clusters in the slower growing wearing apparel sector, on the other hand, are located in the high unemployment areas of Dublin.

This points towards the need for a comprehensive employment strategy which will focus not only on retraining workers but will also involve attracting new firms, be they indigenous or overseas, to provide quality employment opportunities. Specific sectors with growth potential should be targeted with the objective of building-up clusters.
The overall recommendation of the report for regional policy is that **investment in human capital** should be biased **towards poorer regions** to help minimise regional differences that might otherwise be compounded by economic fluctuations.

This is consistent with the choice of indicators for designating assisted areas where endowments of human capital are taken into account for measuring regional disparities (employment and unemployment indicators).

“**Devising a strategy for balanced regional development in an open economy: lessons from Ireland**”, Jim Walsh, Department of Geography & National Institute for Regional and Spatial Analysis”, Ireland.

1. **General summary**

This paper was presented to the Regional Studies Association Conference on ‘**Regional Transitions: European Regions and the Challenges of Development, Integration and Enlargement**’, on 15-18th September, 2001, in Gdansk. It outlines the context for preparing the National Spatial Strategy, the processes involved and some of the key concepts that have emerged. It concludes by identifying some general issues that have arisen in relation to the practice of strategic regional planning.

2. **Detailed summary related to regional policy**

2.1 **Impact of trends and changes in regional development policies**

After years of economic restructuring, Ireland progressed from being one of the poorer Member States to one with high growth rates (in 2000 the second highest GDP in the EU). Overall economic performance also improved by the end of the 1990s. Increased integration into the European and global markets has also impacted on the strategies for regional development adopted by governments. The **primary regional objective** became the **reduction of the differential in per capita GDP between Ireland and the EU average**. The general trends are summarised as follows:

- Increased reliance on foreign direct investment in selected manufacturing sectors and internationally traded services resulted in a major shift in investment, employment and population towards Dublin and other cities;
- The concentration of employment contributed to a sharp rise in demand for housing;
- In contrast to increased economic activity in urban areas, there were some rural areas, especially remote inland areas, where there was relatively little new activity.

Against this background, the **need for a coherent regional policy** emerged in numerous reports for development and planning. This culminated in the National Development Plan (NDP) 2000-2006, published in 1999 which gave prominence to the objective of balanced regional development. The country was divided in two NUTS II regions in order to retain Objective 1 status for the poorer Border, Midland and West (BMW) region. The Irish government’s objective for regional policy in the NDP was “to achieve more balanced regional development in order to **reduce the disparities between and within the two Regions** and to develop the potential of both to contribute to the greatest possible extent to the continuing prosperity of the country”. The **MBW region will benefit from both the enlargement of the investment programme of the NDP through the Regional Programmes, as well as from the higher levels of incentives to be made available for productive investment in the BMW region according to the provisions of the Regional Aid Guidelines.”
2.2 Identification of regional problems/disparities

In contrast to previous NDPs where spatial issues were largely ignored, the NDP for 2000-2006 is much wider and allowed for the preparation of a National Spatial Strategy (NSS) which incorporated the results of numerous consultations and research studies (around 20) with respect to spatial issues and regional disparities. The key issues arising from public consultations were:

- Quality of life;
- **Transport**: quality, accessibility, availability of public transport in rural areas, etc;
- **Employment prospects**: job losses, limited range of employment options in rural areas, reluctance of large companies to locate outside of Dublin due to poor infrastructure, and the scarcity of skilled staff;
- **Declining Populations in Rural Areas**: linked to poor job prospects, lack of public transport and absence of recreational facilities for young people and long distance commuting from rural areas tending to fragment rural communities;
- Access to Health/Education Facilities.

Key issues identified in research studies include:

- Approximately 30% of the total population resides in rural areas, though the proportion of the total in employment is much higher at 38%;
- There were major differences between urban and rural areas in the changes in population and employment. The total number of employed persons increased by 4% in rural areas compared to an increase of 16% in urban areas;
- Within the rural areas there were very pronounced differences in adjustment. Six different area types were identified: two traditionally strong rural area types; two weak areas types, and two types of areas where there are significant urban impacts. The latter category consists of on the one hand, areas on the fringe of urban centres and on the other hand, remote areas that are mostly coastal and subject to changes related to tourism and other forms of consumption that emanate mainly from the larger urban centres;
- Research on the urban system confirmed the increasing dominance of the capital city within the Irish urban system and also its pivotal role in linking Ireland to the international space economy;
- Apart from Dublin, none of the other cities is likely to be large enough to become a significantly competitive location for economic development in the context of the European urban system;
- Linking with the rural analysis the urban research noted that many urban centres in previously strong rural areas are now in decline. There was a striking difference in the performance of towns with populations either above or below 5000 persons;
- The analysis of recent trends in the location of new enterprises established a significant negative relationship between remoteness and employment change;
- Research on transportation pointed to the lack of coordination between investment in roads and rail services;
- The analysis of IT infrastructure provision revealed the existence of a major digital divide with the weaker rural areas particularly disadvantaged;
- Population projections indicate that in the absence of a spatial strategy it is expected that up to 80% of the population increase will occur in Dublin and the three surrounding counties.
These issues seem to be taken into account in the choice of regions to be assisted under Articles 87(3) (a) and (c) and the respective aid intensities.

2.3 Emerging regional policy priorities

Having identified the key regional issues, the central goal of the spatial strategy is to facilitate the promotion of balanced regional development while at the same time maintaining the competitiveness of the economy, improving the quality of life of all persons, and ensuring that the development model is sustainable. The focus will be on a “potential” rather than a “redistribution” approach to balanced regional development. “Potential” is defined as the capacity which an area possesses for development arising from its endowment of natural resources, population, labour, economic and social capital and location relative to markets. A key concept for achieving this will be “critical mass”. “Critical mass” is defined as the size, concentration and characteristics of populations that enable a range of services and facilities to be supported and which, in turn, can attract and support higher levels of economic activity.

Concentration of critical mass to achieve stronger centres and thereby the development of associated areas is a crucial dynamic in bringing about more balanced regional development. This will necessarily involve difficult choices of deciding how and where to concentrate efforts. However, concentrating on creating critical mass in particular places will achieve more benefits for their wider hinterlands and for the country as a whole in terms of enhancing the range of competitive locations for development, than would an approach that attempts to spread efforts too widely.

To achieve the objective of balanced regional development, based on “potential” and “critical mass”, the design of the NSS included the division of activity and development in Ireland in terms of “functional areas”. Twelve functional areas have been identified, containing cities or towns and their hinterlands that are loosely defined in terms of boundaries. Typically, these are areas that tend to share common characteristics and issues, where people live their working, schooling, shopping and leisure lives and with which many can identify. This sense of identification spans the urban/rural divide and frequently extends across county boundaries.

Some of these areas, where there is a strongly dominant centre, such as the commuting catchments of a major city, are easier to identify than others. Another noteworthy feature is the merging of the various areas at their edges. Each of the areas contains an urban centre or a number of centres, which are central to the economic functioning of that area. There is also a recognised interdependence between the urban centre or centres and other parts of the overall area. The outputs from the research programme suggest that the whole of Ireland can be regarded as consisting of twelve Functional Areas.

Taking the concept of functional areas further the concept of “Gateways” was developed. These are centres that have a strategic location relative to a surrounding area, possess good social and economic infrastructure and support services and have the ability to energise their surrounding zones of influence through, for example, good transport links and enabling other centres of various sizes and rural areas to play complementary roles

In addition to the Gateways referred to above, there are some strategically located relatively large urban centres, or clusters of centres, which could, with appropriate supports, develop a capacity to lift the level of development within their respective areas. Centres such as these can play a key role in achieving more balanced regional development by offering locations for investment that are both nationally and internationally competitive.

18 See also “Chapter 3: Regional Development” for detail on Gateways.
In conclusion, the challenge for the years ahead is to implement a comprehensive strategy for spatial development that will lead to an improvement in the relative position of the marginal regions and simultaneously contribute to achieving a more sustainable model of development in all dimensions – economic, social, cultural and environmental.

The above analysis of regional issues and definition of spatial areas and their characteristics (functional areas, Gateways, clusters, etc) suggests that a thorough analysis has been undertaken for defining regional characteristics and needs. The designation of areas for regional state aid and aid intensities would follow these trends and definitions.

Italy (I)


1. General background

This report is a case study of only one specific region of Italy, namely Piedmont¹⁹ in Northern Italy. However, it is useful as it examines the impact on employment of a popular regional economic development tool, business incentive programmes. The paper proposes a method of analysis to assess the employment impact of the business incentive initiatives implemented in EU areas with declining industrial production (EU Objective 2 areas).

The objective is to robustly estimate the ex-post net employment impact of Objective 2 area business incentives through a “comparison group evaluation design” based on geographically aggregated panels of employment data from official statistical sources (national social security or national census bureaus). In particular the following steps are undertaken:

- Pre-post employment changes recorded in the target areas are compared to those of adjacent non-target areas;
- Impact employment estimates are then retrieved from empirical models that make use of a panel of employment data sorted by industry and aggregated by geographic units corresponding to the Objective 2 areas and adjacent regions.

The study seems pioneering as it states that there is currently no robust and consistent ex-post evidence on the employment impact of business incentive programmes in Objective 2 areas, which could help national and EU policy makers refine future geographically-targeted economic development policies. The task of carrying out such impact evaluations is difficult due to:

- Assessing the causality link between programme interventions and the observed employment outcomes is a difficult task as it requires disentangling changes due to the programme from changes due to all the economic and social factors exogenous from the programme intervention;
- This task is also demanding due to the lack of experimental data for the evaluation: areas in industrial decline have disadvantaged local economies that would perform differently from their respective national economies.

It is important to stress here that the above is particularly relevant for explaining why there exist numerous studies on regional development policies, strategies and priorities but very few of them constitute impact or efficiency studies.

¹⁹ Piedmont is part of the Italian regional aid map as an Objective 2 area.
2. **Context and results of the impact analysis**

The proposed method was applied to the Piedmont region (North-western Italy) from 1995 to 1998 (corresponding to the interventions of the 1994-96 programming cycle). The regional government of Piedmont has promoted business inventive programmes (co-funded by the ERDF) targeting SMEs located (or willing to start operations) in the Piedmont’s areas with the sharpest declining industrial production. There, the predominantly auto component industry experienced in the last decades a severe recession that promoted the Italian government to support the designation of the entire Turin province (the main target area) as Objective 2 area.

Business incentive initiatives included:

- Capital grants to support investment expenditures aimed at expanding production capacity and/or supporting technological upgrades;
- Subsidies to support consulting expenditures for services to improve efficiency of production processes;
- 50% abatement of interest rate costs for investment expenditures to increase capacity or ameliorate equipments/plants.

To favour job growth and economic development in target areas, the platform of incentive packages offered to SMEs located in Objective 2 areas of Piedmont was more generous than the platform of incentives offered (from other regional or national sources) in non-Objective 2 areas.

Against this background, the following results were obtained:

- The employment growth posted by targeted industrial sectors was 9.5% in Objective 2 areas and 7.1% in non-Objective 2 areas of Piedmont. Such employment growth differential cannot, however, be interpreted as a net result of the programme intervention. Other factors, independent from the programme intervention, may have contributed to determine the observed employment outcome;
- Metal manufacturing and mechanical productions were the sectors most generously awarded with subsidies and capital grants, with chemical, pharmaceutical and synthetic fibre productions coming second;
- Impact estimates show that the employment growth recorded in the targeted sectors within the Objective 2 areas was not significantly affected by the programme intervention, once sector-specific, time-specific and area-specific exogenous influences were properly accounted for;
- The marginal employment growth rate recorded in the targeted sectors was 10% points lower than that recorded in the other sectors of the Piedmont economy, while aggregate employment growth rate of Objective 2 areas was instead estimated to be marginally similar to that of non-Objective 2 areas. In this respect, the results do not highlight any province specific employment growth differential between Objective 2 area and non Objective 2 area economies.

The above results can be interpreted in two ways:

- Piedmont Objective 2 area business incentive programme did not significantly modify investing and hiring behaviour of targeted firms. As targeted entrepreneurs would have made the same investment and hiring decision even in the absence of the programme intervention, Objective 2 area incentive payments constituted a money prize to entrepreneurs that would invest and hire workers in the target areas anyway;
Objective 2 area incentives induced only very small employment changes in the targeted areas of Piedmont compared to the size of their economies. Even if marginally affecting investment and hiring decisions of some targeted firms, the programme intervention was not sufficient to achieve any employment change large enough to be relevant for the economy of Objective 2 areas.

This paper is useful for showing the negligible impact of one of the common regional development tools on employment growth in a specific area in Italy which is included in the regional aid map as an Objective 2 area. The paper’s main usefulness is however its method of evaluating impact which could be replicated for other business incentive programmes in order to offer results with improved reliability and robustness than those currently available to European policy makers.

Sweden (SWE)


1. General summary

This paper refers to the Western Götaland region of Sweden which forms part of the regional aid map as an area eligible for Structural Funds. It looks at the region’s development and progress by analysing three LEADER+ projects and aims to answer questions like: how is regional competition enacted in the local projects; how is competition between regions translated into local competition between sub regions within the region; and what are the effects of those kinds of competition.

The paper describes the creation of the new region of Western Götaland and analyses the three LEADER projects in this region.

2. Summary relevant to regional development

2.1 Swedish regional policies

During the 1970s, structural changes in certain industrial sectors, above all, shipping and dockyards-, mining- and steel industries, adversely affected areas with factory shut-downs, lay-offs and high levels of unemployment. The state marshaled packages to create focused employment opportunities. During the economic boom of the 1980’s, regional policies became associated with problems within sparsely populated areas. The ambition was to compensate such areas for their long distances and their under-population.

Two tendencies within the regional policies emerged during the 1990’s:

- Increased focus on the knowledge society and learning, with regional colleges/universities expanding;
- Emphasis on growth-oriented regional policies instead of the distribution-oriented national policies of the past.
The service and knowledge society as well as growth in Sweden are based on continuous regionalization. For the sake of economic survival, the regions have developed a strong interest in mobilizing and marketing themselves as attractive for economic activities.

The task of the state in Sweden today is to create regional space so that the actors and companies can utilize their local knowledge in the best possible way to create networks to generate growth. This, together with increased mobilization, has created a focus on comparative competitive advantages between the regions. It is expected that increased competition and mobility will further promote economic growth.

In Sweden, the competition between the growth regions has led to, among other things, a debate on how the biggest differences in welfare are to be found just within the growth regions’ segregated big-city areas and not so within the distanced, sparsely populated country-sides with one-sided industrial structures.

### 2.2 Regional development issues/problems and priorities

The main problem in the Swedish countryside is related to the structural changes that have been going on for decades. Agriculture and forestry employ only a few people in rural areas and out-migration has become a quite common phenomenon.

More specifically in the West Götalands region covered in this study, the following main issues prevail:

- In coastal areas traditional sectors like fishing and shipping are in decline;
- Poor communication links between coastal and inland communities;
- Inner areas experience lack of qualified labour, while continuous out-migration further worsens the problem;
- Other areas suffer from unfavourable age structure, low educational level and lack of infrastructure.

Against these problems, the following overriding priority is pursued: to increase the value of local products and use business cooperation for accessing the markets. More specific priorities emerging from this include:

- Improve quality of products from the agriculture and forestry sectors and ease their access to markets;
- Increase cooperation in the service sector, especially between small-scale industries;
- Explore the potential of the tourism sector.

Although the paper is not very sophisticated in analysing regional problems, it gives some insight into the issues facing an area that forms part of the regional aid map for Sweden. In this sense, it is comprehensible why such regions should receive regional aid, while it is also evident that the indicators chosen for designating assisted areas focus on population statistics in order to address the serious out-migration problem that such areas face.


This evaluation describes the situation and impact in Swedish Objective 6 regions, which are very sparsely populated and which can justify the choice of these regions for assistance under Article 87(3)(c). In addition, the choice of indicators reflects the key issues identified in the
evaluation, namely out-migration and population growth, with their negative effects on employment and growth.

We focus here on the findings of this report which relate to the **impact and efficiency analysis** of the Objective 6 programmes. Impact can be grouped into the following categories, which are clearly linked (for example out-migration affects employment and regional demand, which in turn affect new firm creation):

- **Impact on the development of population**: a key issue is persistent out-migration from the Objective 6 region to areas of fast economic growth, due to:
  - structural change of the employment from the primary sector production to a more service related economy;
  - despite increasing in-migration during the period of the programme, out-migration also increased and as a result population structure remain relatively unchanged.

Out-migration hits first and foremost the rural municipalities. A few urban centres managed to sustain levels of population whereas remoter areas have not. Out-migration is a major problem and still continues with an unbroken trend. The programme has a very limited effect on out-migration from the area.

Possibly the choice of areas for assistance under Article 87(3)(c) will address this issue by offering incentives for people to stay or return to these areas. Population rates and population growth are indicators used for selecting assisted areas. This is compatible with the results of this evaluation, since out-migration which affects population levels constitutes a serious regional problem.

- **Impact on job creation and employment**. Overall it is difficult to distinguish between impact from the programme and impact from the general economic boom. Where positive developments are observed, it is claimed they are due to other forces besides the Objective 6 programme. However, some impact can be seen as summarised below:
  - The **demand for labour** in the local economies, especially in agriculture and forestry as well as in the public sector **lessened** due to:
    ◊ overall changes where marginal farmland had been taken out of production;
    ◊ technological development in forestry which more than halved the labour force in the sector;
    ◊ a significant withdrawal of public services that occurred in the area in the 1990s, mostly due to the changed overall economic situation;
  - however, a significant number of **jobs** were **created and maintained** and there were business start-ups;
  - projects created work throughout the period of the programme, but **few** seem to have led to a **sustainable impact**;
  - **unemployment** among the young population was heavily reduced due to an increase in the number of young people who went on to further studies at University level, but with no significant impact on **long-term unemployment**. Overall unemployment in the area was **higher than in the country** as a whole;
  - **farm holdings** decreased from 1981 to 1999, due to:
    ◊ many small farm holdings were abandoned or converted to second homes. The decreased profitability of small farm holdings meant that farmers were forced to find other sources of income;
    ◊ no new farms were set up but as an effect of the former, other farm holdings were able to expand by increasing the area of the farm and thereby also got opportunities to increase productivity. Consequently the number of small farm holdings decreased;
    ◊ the **profitability** of farm holdings decreased
there was no immediate connection between the Objective 6 programme and the general wealth of people in the region. The most important factor seems to have been the boom and bust cycle.

There were also some measures that did not aim at job creation as such but merely at increasing people’s ability to get jobs in the market. For example, jobs created during the railway building offered greater opportunities for industries in the area to compete in the market. Impact on job creation may occur in the future, but no immediate job creation was expected.

There do not seem to be any indicators reflecting the employment/unemployment situation.

**Impact on the promotion of entrepreneurship:** the programme affected the establishment of quite many new companies. In particular:
- new businesses were created, although some of them would have been created anyway (i.e. without the programme);
- the number of Sami businesses in the tourism sector increased;
- the ability to develop was enhanced through training and access to Internet;
- the competitiveness of businesses was influenced more by external factors than by the programme;
- compensation subsidies offered to farmers helped reduce the number of farm closures.

**Impact on SME development:**
- businesses gained comparative advantage over businesses outside the Objective 6 area;
- increased competence and know-how among existing and new SMEs;
- development of new products, services and techniques.

The designation of assisted areas does not include any specific indicators that reflect the need to promote entrepreneurship and SME development.

**Impact on cooperation and partnership.** Despite the geographically widespread enterprises and economic structures in the area, the programme contributed in a positive way by helping people to cooperate in networks and bringing new insights into the importance of network building, for example:
- between Sami villages;
- cooperation and networking within industries;
- increased involvement of all sectors in new networks.

This participative or cooperative approach can play a role in ensuring efficient implementation of state aids in assisted regions.

**United Kingdom (UK)**


This report is very useful as it was used as input for the designation of assisted areas under Article 87(3)(c) in the UK. The report indicated changing patterns of unemployment and its
implications for regional policy. Conclusions were taken into account for selecting the methodology and indicators for drafting the regional aid map for the UK.

1. **Background (what RSA is, how it works, who benefits)**

The principal aim of the evaluation of Regional Selective Assistance (RSA) was to assess the impact of the scheme in delivering net additional jobs in assisted areas of Great Britain and to assess cost-effectiveness.

RSA is the **main regional aid scheme** in the UK which provides financial assistance to industry. It provides discretionary grants to companies creating or safeguarding employment in the assisted areas of the UK. These have traditionally been characterised as areas with relatively high levels of unemployment and suffering from industrial decline.

**Principal aim** of RSA has been to **secure additional employment** in assisted areas, but has other objectives as well:
- to improve competitiveness of regions;
- to secure internationally mobile investment.

**Eligibility criteria** for RSA include:
- projects must have a net positive impact on assisted areas employment levels;
- they must create and safeguard jobs;
- be viable;
- contribute positively to the national economy;
- must need grant support to take place;
- it is necessary to show that the investment would not proceed without grant.

**RSA offers** include:
- start-ups in a given location (30% of projects);
- expansions and modernisation (58%);
- transfers to new premises (9%);
- buy outs or acquisitions (3%).

**Main beneficiaries:**
- companies in the **manufacturing sector** were the main beneficiaries, accounting for 84% of projects and 91% of grant offered;
- while almost 90% of projects were from **UK-owned** companies, internationally owned companies accounted for almost 50% of the amount of grant offered, reflecting the large scale of projects implemented by such companies.

2. **Assessment of effectiveness and efficiency of RSA**

Effectiveness and efficiency were measured in terms of jobs created as a result of granting assistance and the exchequer costs of these jobs. Data used came from reliable statistical sources, namely the DTI’s SAMI database, and this was complemented with surveys that were used to generate measures of effectiveness and efficiency. The main results are summarised below:

- **Duration of RSA assisted jobs (job years).** RSA supported projects provided 100,000 gross discounted **permanent job equivalents**\(^{21}\) over the period 1991-1995. The expected average job life was about 10 years;

\(^{21}\) Gross employment outputs were adjusted to take account of expected life (base on capital asset life) to derive a permanent job equivalent (PJE).
• **Additionality.** There was a lot of evidence of additionality of the RSA scheme, more specifically:
  - in the absence of RSA it was found that, as a proportion of grant paid, 20% of projects would have gone ahead unchanged; 18% would have been abandoned; 14% would have taken place elsewhere in the UK but outside assisted areas; 30% would have taken place outside the UK; and 9% would have occurred more slowly or on a smaller scale;
  - there was considerable **variation in terms of size:** for smaller projects (£25,000 or less), they would have proceeded more slowly or on a smaller scale; for larger projects, the refusal of RSA would have resulted in an alternative location being chosen;
  - 49% of **jobs created** and 33% of **jobs safeguarded** were judged to be **additional**;
  - in expenditure terms, there was greater additionality in respect of larger projects.

• **Displacement and inter-industry linkages.** Based on the assumption that employment in RSA could displace jobs elsewhere, about **20% of additional jobs** were estimated to have **displaced those from elsewhere** in the assisted areas. This varied substantially by grant size: grants of £25,000 or less suffered 49% displacement. **Inter-industry linkage** effects were also assessed and these **partly offset displacement** effects;

• Almost 40,000 **net permanent job equivalents** were supported as a result of RSA during 1991-1995 (after adjusting for deadweight, displacement and linkage effects). However, the **net employment impact** on a more conventional basis was significantly higher (84,000);

• The **net cost per job** was of similar order of magnitude to the estimates produced in previous evaluations. Overall, RSA operated in cost effective manner in the 1991-95 period;

• **Overall effect on employment in assisted areas:**
  - RSA projects were associated with 210,000 **gross jobs**;
  - **Net jobs** (taking into account deadweight, displacement and linkage effects) were approximately 40% of gross jobs, suggesting 84,000 net jobs (see above);
  - **average life** of jobs was 10 years;
  - **unemployment** in assisted areas fell by approximately 0.6 million persons, concluding that RSA job creation/safeguarding represents about 14% of this reduction;

• **RSA contributed to convergence in the unemployment situation** in assisted and non-assisted areas, more specifically:
  - the gap between intermediate areas and the UK as a whole was smaller than in the case of development areas\(^{22}\);
  - the gap in the unemployment rate in the development areas and the UK as a whole showed a continuous reduction, despite a slight increase in 1994;
  - although some convergence was achieved, the **gap in rates** remained **relatively significant**;
  - apart from RSA, other forms of intervention (Structural Funds, national programmes) contributed to convergence as well as normal market adjustment processes.

3. **Other benefits of RSA**

The RSA embraced wider objectives than numbers of jobs and costs, including:

\(^{22}\) Assisted areas include development areas and intermediate areas, the former being those most seriously affected by economic difficulties.
• **Attracting internationally mobile investment.** The aim was to assess the extent to which the grant was used to enhance the capacity of the UK to compete for internationally mobile investment. It was concluded that **RSA played an important role in attracting internationally mobile investment:**
  - 10% of projects were internationally mobile, accounting for 38% of the total grant offered;
  - international companies considered the RSA to be an integral part of a package available from the UK government to attract mobile investment;
  - the overall estimates of net cost per net PJE for internationally mobile versus non internationally mobile companies were similar.

• **Improved competitiveness.** About three quarters of firms gained a competitive advantage as a result of an RSA assisted project. The main reason was a lower cost base and various product related factors. Just over a third of companies also reported a major technical advance typically in relation to processes, or processes and products in combination.

4. **Other aims of the evaluation and lessons for the future**

The evaluation sought information in a number of other areas, most relevant of which are the following:

• **Cost-effectiveness of larger versus smaller projects.** Although larger projects demonstrated more cost-effectiveness, smaller projects were generally associated with higher net cost per net job. This was a consequence of lower levels of additionality and higher levels of displacement associated with the latter.

• **The future scope for greater targeting.** There a number of issues where greater targeting could be considered:
  - while there may be a case for assisting small businesses, there are doubts about the value of the RSA scheme as it operated as an effective programme for this group;
  - grant assistance to small businesses should be tied in more closely to business support for this group, including specific small business support measures advice;

The above two suggestions related to small businesses stem from the lower additionality identified, the necessary complexity of the application process, the relative cost of external advisors used by many small firm applicants in relation to the size of the grant received and the limits on eligibility.
  - in assessing projects, consideration should be given to the expected life of the function and its **contribution to longer term economic growth and competitiveness**;
  - RSA assistance is most successful in areas where it can complement broader regeneration programmes concerned with promotion and improvements to physical infrastructure and labour supply. Such an approach was deemed essential if RSA was to address also wider issues of inclusion and competitiveness;
  - For sub-regions to fully benefit from assisted area designation, there is a **need to develop a more integrated strategic direction and vision** which goes beyond the simple marketing of grant availability. This strategy should seek to identify the future economic role of the sub-region and target sectors, taking into account local competitiveness, need and opportunities. The Regional Development Agencies (see review of other papers/reports below) in England are a welcome development in this respect. Local or regional regeneration resources including the Structural Funds should then be targeted at creating the conditions under which this strategy or vision can be realised.
The findings of this evaluation and, most importantly, its suggestions were into account when drafting the regional aid map 2000-2006 for the UK.


This chapter of the Annual report states the government’s regional policy priorities, strategies and actions towards regional development for the year 1999.

In particular, against the background that only two English regions (London and the South East) exceed the European GDP average, Regional Development Agencies (RDAs) were introduced as a tool to improve the performance of regions and fulfil their economic and social potential.

The early priority of RDAs will be to produce a regional strategy covering economic development and regeneration, business efficiency, investment and competitiveness, employment and the development of skills, and sustainable development.

These priorities and scope of RDA work were taken into account for designating areas for assistance under Article 87(3)(c). In fact it was the DETR that contributed to the Assisted Areas Map.

“Regional planning in transition: planning for growth in two contrasting English regions”, David Counsell and Graham Haughton, Centre for City and Regional Studies, Department of Geography, University of Hull, July 2001.

This paper is interesting in that it brings to light the contrast between regional policies in different regions within the UK. The interplay of regional and national political forces tends to undermine or support the key priorities for regional development in the English regions. In particular the contrast is evident between the following two systems:

- **regional economic development**, taken forward by the Regional Development Agencies (RDAs), which are regional institutions established since 1997. The main agenda of RDAs is to pursue **competitive modernisation through inward investment**. For instance, regional economic development strategies tend to emphasise the importance of inward investment, business support, plus jobs and wealth creation, with social and environmental issues as ancillary and indeed supportive concerns for achieving these goals;

- **regional planning**, concerned more with **sustainable development** rather than growth, and delivered by Regional Planning Bodies (RPBs), which are consortia of local authorities in each region. RPBs produce the Regional Planning Guidance, which tends to take a wider set of issues as its primary concerns, attempting a more equal balancing of economic, social and environmental priorities. Regional planning is also **subject to strong central government prescription** and ultimately it is the Secretary of State who agrees and publishes the final document, not the regional partners.

This paper examines the ways in which the new arrangements for regional planning and regional economic development have been closely entwined, looking particularly at the contrasting politics of development in the south east and the north east of England.

1. **The case of the South-East of England**

1.1 **Key regional problems**
This is the most economically prosperous region in the UK, benefiting from London’s position as a major European and World City. This pattern of growth and prosperity has brought new problems in the region:

- how to ensure that some of the benefits of this prosperity filter through to the deprived coastal towns, inner urban and rural areas of the region;
- how to ensure that unbridled growth does not undermine the quality of life which underpins the overall growth of the region;

As such the key planning issue for the region is how to cope with the scale and pattern of development in ways that allow economic growth to continue whilst at the same time not neglecting less prosperous areas and providing an attractive environment.

1.2 Regional development priorities

The key priority of the regional economic strategy (RES) is to “build a world class region”. It proposes to increase the region’s economic competitiveness through seven region-wide programmes. Emphasis is to be given to:

- improve infrastructure (transport, water, waste);
- ensure the region’s economy and its infrastructure is undertaken in a sustainable way.

Regional economic strategies in the South-East show generally a high level of awareness of the need to integrate sustainable development concerns within the strategy. However the environmental focus of the RDA responsible for the Regional Economic Strategy was in ensuring that a poor environment does not constrain growth, rather than that economic growth might cause environmental degradation.

Regional development little concerned with the environment and sustainable economic development.

1.3 Regional planning priorities

The key objective of the Regional Planning Guidance (RPG) is to address sustainable development in an integrated way based on six policy themes:

- environmental enhancement and natural resource management;
- encouraging economic success;
- opportunity and equity;
- regeneration and renewal;
- concentrating development;
- sustainable transport.

The policy for economic development in the south east was to give priority to the less prosperous parts of the region, referred to as Priority Areas for Economic Regeneration (PAERs), including areas such as Thames Gateway. To assist in implementing this policy it was also proposed to constrain development in those areas of economic pressure which were also suffering significant environmental and planning constraints.

Regional planning is more concerned with environmental issues

1.4 Balance between regional economic development and regional planning priorities

After a series of consultations and reviews of the RPG by the central government, it was proposed to shift the approach of giving priority to the regeneration of less prosperous parts of
the region, in favour of the RES approach of prioritising support for economic growth in the buoyant areas. Priority was given to the deprived Thames Gateway, but the policy on other priority areas for economic regeneration was weakened. However, a separate policy was included on the Western Arc, encouraging positive strategies where congestion or labour supply shortages are constraining growth. This policy proposes that ‘hot-spots’ be identified with specific policies to tackle local problems.

Hence, in the South-East where the dominant political culture is for growth management rather than untrammelled growth, tensions arose early in the regional planning process, where the core strategy for regional planning was to re-direct growth from economically buoyant areas to those needing regeneration. In its role as arbiter central government sought to give some support to the facilitation of economic growth in the buoyant areas, albeit without compromising green belt boundaries.

2. The case of the North-East of England

2.1 Key regional problems

The north-east of England is the most disadvantaged English region based on most socio-economic criteria (lowest GDP per head and highest rate of unemployment). It has a long history of de-industrialisation and experimentation with regional policy. It is also the region with the lowest population.

2.2 Regional development priorities

The key regional planning priorities in the north east differ from those in the south east. The main priority is to turn a declining economy into a growing one and as a consequence, the political attitude to development is predominantly pro-growth. More specifically, the regional economic development strategy’s approach was:

- to diversify and create a knowledge based economy to compete in global markets;
- to attract inward investment;
- to support urban and rural regeneration;
- overall, to become a more sustainable society, based on wealth creation.

2.3 Regional planning priorities

The draft strategy for regional planning (draft RPG) focused on the following development issues, in support for growth:

- a greater amount of new build housing than was identified as necessary in Government predictions of future housing needs;
- promote four additional strategic green-field sites for inward investment in advance of any identified demand.

Both these policies run against the grain of national planning policy (which aims to minimise green field incursions), but do reflect the dominant pro-growth political aspirations evident in the region.

2.4 Balance between regional economic development and regional planning priorities

There was a contradiction between pro-growth discourses and the Regional Planning Guidance’s stated objective of sustainable development. Instead, the prevalent view appeared to be that there was a large environmental resource in the north east, with more space available for development than in other parts of the country.
Despite differences in circumstance and policy direction, the north east has a similar economic development discourse to that in the south east, wedded to **increased competitiveness and inward investment as a first priority.**

In the north east there were few tensions between RES and RPG in the earlier stages, since both strategies were based on a commonly held desire to stimulate economic growth across the region. Instead tensions occurred when central government imposed national planning policies against green field development resulting in the loss of three out of four proposed strategic investment sites.

So **central government intervention** in the **south east** appears to have resulted in RPG incorporating **more growth** than was originally considered politically acceptable in the region, whilst that in the **north east** has resulted in **less**.

3. **Conclusions (relevant for state aid)**

The focus of much recent theoretically informed work on resurgent regionalism in England has tended to be almost entirely on **economic development** with little or nothing said of the changing role of **regional planning**. Yet as the new arrangements for regional economic development and regional planning begin to take more concrete forms, the inter-relations between the two are emerging as central to an understanding of the challenges facing the new regional scale of governance, not least since different governance regimes are in place for economic development (Regional Development Agencies) and regional planning (Regional Planning Bodies).

The contrast of policies developed and pursued in the field of regional development, from both the economic development and regional planning perspectives, can have an impact on the type of aid to be granted for regional development. **The choice of regions for state aid assistance will not therefore only reflect past regional policy efficiency and impact, but also current tensions and contradictions between economic development and regional planning priorities.** To this we can add the complex interplay of tensions between local, regional, national and international scales. For instance, the paper states that, at the national scale, policymakers have so far shown a ‘light touch’ in directing regional economic strategies, reflecting the political dangers of undermining the newly powerful RDAs and their often influential board members. But in contrast, central intervention has been much more notable in changing regional planning guidance to reflect national priorities over regionally expressed preferences.

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Studies covering various Member States

**“EC Competition Policy and Regional Aid: An Agenda for the Year 2000?”**, Fiona Wishlade, Regional and Industrial Research Paper Series, Number 25, December 1997, European Policies Research Centre, University of Strathclyde, UK.

1. **General summary**

This paper reviews the development of EC competition policy with respect to regional aids. It outlines first the legal basis for European Commission control of regional policies of the Member States. It then traces history of regional aid discipline since the late 1960s and then reviews recent policy developments. Finally, it highlights a number of issues which seem likely to dominate the policy agenda of national and Community policymakers as the Commission seeks greater aid discipline whilst coping with the potential impact of enlargement.

We shall focus our summary on the sections which refer to specific Member State experiences.
2. Summary related to specific Member States

The paper reviews the **impact of competition policy on the regional policies** of Member States, covering four broad country groupings:

A. Member States wholly covered by Article 92(3)(a): Greece, Ireland and Portugal (GR, IRL, P);
B. Member States with significant Article 92(3)(a) and Article (3)(c) areas: Germany, Italy and Spain (D, I, ES);
C. Member States largely governed by Article 92(3)(c): Austria, Benelux, Denmark, France, United Kingdom (AT, Ben, DK, F, UK);
D. And the Nordic Member States where the special nature of the regional problem is characterised by areas of low population density.

2.1 Group A (GR, IRL, P)

In these three countries, even prosperous regions are relatively poor in an EC context. A feature common to all three countries is that membership of the EC resulted in an upgrading of the value of regional aids in relation to the situation prior to accession.

For **Ireland**, increased prosperity (largely attributable to Dublin) may imply that none of the country would qualify for Article 92(3)(a).

For **Greece and Portugal**, with a GDP is less than 75% of the Community average, the whole country would qualify for Article 92(3)(a).

The paper states that the choice and size of the territorial units used for area designation will fundamentally affect assisted area coverage. (This was indeed the case of Ireland and Portugal, which designated some areas as qualifying for Article 92(3)(c) on the basis of transitional support as Objective 1 areas for the 2000-2006 period).

2.2 Group B (D, I, ES)

In **Germany**, the new Lander received GA status until 1996, in view of the very low per capita GDP figures in the east (around 35% of Community average). Area designation in the west was more difficult. Through a series of negotiations, the population coverage of problem regions of west Germany was substantially reduced. However, overall coverage in Germany remained significant (37.6% until December 1996). Some controversy developed for the next period (1994-1999) as a result of West Berlin being included by the German authorities in the new Lander for GA Area designation purposes, which contrasted what the Commission approved for west Germany. After a series of discussions with the Commission, a compromise was reached where German authorities were given flexibility in area designation, provided that coverage was reduced by 800,000 inhabitants.

In **Italy**, a key feature of regional policy is the extent to which **national regional policy has become intertwined with the operation of the Structural Funds**. The basic regional policy designation in Italy provides for the national assisted areas to coincide with those designated as Objective 1, 2 and 5b. Overall, there is a very high degree of coincidence between the national and the Structural Fund maps in Italy. In national regional policy terms, the direct relationship between domestic and European regional policies has resulted in a substantial increase in
assisted area coverage in Italy. At the time of writing it extended to almost 49% of the Italian population compared with around 37% previously.23

In Spain too, area designation under the Structural Funds has also been an important factor in determining the spatial coverage of domestic regional incentive policy. The paper states that ever since Spanish assisted areas have become the subject of Commission scrutiny, following membership of the European Community, the spatial coverage implemented by the Regional Incentives Directorate in Spain has been less extensive than that authorised by DG Competition (DGIV at the time). Decisions on where to offer the Regional Incentive Grant have been based on both the relative severity of the regional problem and the relative prosperity of the Autonomous Communities (the Spanish regions). Consequently, it was concluded that Madrid and Cataluña, for example, were themselves in a position to fund regional policies within their territories and, as a result, the national scheme was not made available in these areas. In part this reflects the significant economic development role played by Autonomous Communities within what amounts to a quasi-federal institutional structure; it also reflects the desire to concentrate national government resources on priority areas. Assisted areas in Spain were decided in an iterative manner, based on proposals from the national authorities and the Autonomous Communities.

2.3 Group C (AT, Ben, DK, F, UK)

In most of these countries, where Article 92(3)(c) regions predominate, there is downward pressure on assisted area coverage.

In Austria, analysis showed that the Burgenland region qualified under Article 92(3)(a) as an underdeveloped region. However, the Commission’s reaction was that a prosperous country such as Austria should not claim this designation, even if, in theory, the criteria were met. A more general problem for Austria was the fact that there was opposition within the country to the fixed delimitation of assisted areas. The Austrian position is that such an approach ignores the scope for the ‘trickle down effect’ that flows from being able to attract projects to relatively prosperous areas that are adjacent to less-developed areas. From the Austrian perspective, wider spatial coverage is viewed as more important than higher rates of award. A further consideration for Austria was the wish to have an explicit link between Structural Fund area designation and the national map. In proposing designated areas to the Commission, coincidence of the two maps was sought as a priority.

In France, for most of the 1980s and 1990s there were unresolved issues in the relationship between regional policy and EC competition policy and the long-running dispute between the French authorities and the European Commission over the assisted areas map for the PAT scheme. After various negotiations, a slight reduction in population coverage was agreed. In the areas designation exercises consistency with Objective 2 and 5b was sought fairly systematically. In addition, the French regional map reflects one of the principal aims of French regional policy: to counter the domination of Paris and to support areas with a declining population.

The UK position is different, supporting that there is no direct connection between the assisted areas map and eligibility for the Structural Funds.

2.4 Group D (Nordic)

My comment: The situation changed with the new regional aid map for 2000-2006, where for the first time there is a dispersion between mechanisms of regional aid: one third of the areas eligible for the Article 87(3)(c) derogation are not eligible under Structural Funds.
The treatment of regional aids is a sensitive issue in these countries, first, because of their relative prosperity which initially limited the extent to which they could qualify as assisted areas on the basis of the Commission’s 1998 methodology. Second, the major focus of regional policy in Sweden and Finland is on the northern territories which are not only at a considerable distance from the main population centres, but which are also characterised by difficult geography and harsh climate. However, the 1997 guidelines were updated to allow for areas with low population density or sparsely populated areas to qualify under Article 87(3)(c).

Key regional problems facing these countries include:

- permanent structural handicaps, notably distance from markets and harsh weather conditions;
- these involve permanent cost disadvantages to firms located in these areas.

These problems reflected the need in the Nordic countries for the provision of operating aid, but operating aid goes against the Commission’s principles for regional state aid. The Commission supports the granting of one-off subsidies related to capital investment or job creation, and not incentives that provide ongoing support and reduce operating costs on a permanent basis. The solution to the issue of operating aids was reached in the context of transport subsidies in sparsely populated areas.

The Nordic countries were able to exert considerable influence over the European Commission’s state aid rules. The main issue was the fact that the types of regional problems (as noted above) faced by the Nordic countries are not ones common to the rest of the EC membership.
ANNEXES

PART I: TABLES

PART II: LIST OF PAPERS/STUDIES
## PART I - TABLES

### Table 1: Summary of Geographic Units selected

<table>
<thead>
<tr>
<th>Member State</th>
<th>Geographic Unit selected</th>
<th>Justification</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Under Article 87(3)(a)</td>
<td>NUTS III is the statistical unit proposed by the Commission. No alternative was suggested.</td>
</tr>
<tr>
<td></td>
<td>Under Article 87(3)(c)</td>
<td></td>
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<tr>
<td>• NUTS III regions</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>• NUTS V groups of regions</td>
<td>NUTS III level regions in Belgium date back to the 19th century and do not reflect the current socio-economic reality.</td>
</tr>
<tr>
<td></td>
<td>• 4 groups of regions from SF Obj 2 areas.</td>
<td>Consistency with approved Objective 2 map.</td>
</tr>
<tr>
<td>Germany</td>
<td>• 41 labour market regions and the city of Berlin</td>
<td>NUTS III areas correspond to the level of district (Kreis) and this level does not reflect regional economic problems. Functional economic areas are best identified using commuter patterns and accessibility analyses.</td>
</tr>
<tr>
<td>Denmark</td>
<td>• 20 groups of “communes” and 14 small islands</td>
<td>Groups of “communes” best reflect the socio-economic reality of Denmark. The choice of islands, despite their very small population, is consistent with point 3.10.3, second indent, of the Guidelines.</td>
</tr>
<tr>
<td>Greece</td>
<td>4 zones were defined comprising NUTS II and NUTS III areas.</td>
<td>GDP/PPS lower than 75% of the Community average. In some areas, unemployment and negative population growth also determined the choice of aid intensities.</td>
</tr>
<tr>
<td>Spain</td>
<td>11 NUTS II areas.</td>
<td>Groups of municipalities (“comarcas”) are used in Spain for regional policy and economic policy interventions. They constitute more appropriate units than NUTS level III.</td>
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<tr>
<td></td>
<td>• 120 “comarcas” (groups of municipalities, between NUTS level III and V)</td>
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<tr>
<td></td>
<td>• 2 areas for consistency with SF Obj 2.</td>
<td>They form compact zones and the correlation between population and economic activity is similar to that of the whole “comarcas” to which they belong.</td>
</tr>
<tr>
<td>Country</td>
<td>NUTS Regions</td>
<td>Employment Zones and Characteristics</td>
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<tr>
<td>France</td>
<td>4 NUTS II</td>
<td>169 employment zones</td>
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<td></td>
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<td>Employment zones show a correlation</td>
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<td>between work location and home location.</td>
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<td>14 employment zones consistent with SF</td>
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<td>Obj. 2.</td>
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<td>These areas benefit from Structural</td>
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<td>Funds Obj. 2.</td>
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<tr>
<td>Finland</td>
<td>NUTS II region of Eastern Finland</td>
<td>37 NUTS IV regions</td>
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<td>Correspond to the economic reality of</td>
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<td>the country.</td>
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<td>Some regions consistent with SF</td>
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<td>Designated by the State Council as</td>
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<td>regions with low population density</td>
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<td></td>
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<td>and need for state aid.</td>
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<tr>
<td>Italy</td>
<td>49 employment areas</td>
<td>Employment areas are a single,</td>
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<td>homogeneous geographic unit as they</td>
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<td>ensure a strong correlation between</td>
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<td>home and place of work.</td>
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<td>12 employment areas consistent with SF</td>
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<td>Obj. 2.</td>
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<td>These areas benefit from SF Objective 2.</td>
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<td>Parts of an employment area, eligible</td>
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<td></td>
<td></td>
<td>for Obj. 1.</td>
</tr>
<tr>
<td>Ireland</td>
<td>The MBW region (comprising 3 NUTS III regions)</td>
<td>5 NUTS II regions</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Eligible for transitional support</td>
</tr>
<tr>
<td></td>
<td></td>
<td>under Obj. 1.</td>
</tr>
<tr>
<td>Netherlands</td>
<td>5 NUTS V</td>
<td>regions</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>20 NUTS V regions.</td>
<td>NUTS III regions cannot be applied as</td>
</tr>
<tr>
<td></td>
<td></td>
<td>the whole country is NUTS III.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NUTS V reflects the administrative</td>
</tr>
<tr>
<td></td>
<td></td>
<td>structure and socio-economic</td>
</tr>
<tr>
<td></td>
<td></td>
<td>characteristics and differences.</td>
</tr>
<tr>
<td>Portugal</td>
<td>5 NUTS III regions</td>
<td>NUTS III is the statistical unit</td>
</tr>
<tr>
<td></td>
<td></td>
<td>proposed by the Commission. No</td>
</tr>
<tr>
<td></td>
<td></td>
<td>alternative was suggested.</td>
</tr>
<tr>
<td>Sweden</td>
<td>Group A: NUTS V regions</td>
<td>Groups of communes with very low</td>
</tr>
<tr>
<td></td>
<td></td>
<td>population density</td>
</tr>
<tr>
<td></td>
<td>Group B: NUTS V regions</td>
<td>Groups of communes qualifying for</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Structural Funds Obj. 6.</td>
</tr>
</tbody>
</table>
For regional industrial assistance to be effective it must be targeted on those areas where the unemployed live, and where existing residents are more likely to remain unemployed if they suffer job losses.

3 areas from SF Obj. 2 areas

These areas offer locations for investment possibilities and include at the same time the population likely to benefit from the investment.

Northern Ireland

Exceptional region based on Footnote 44 of Regional Aid Guidelines.
<table>
<thead>
<tr>
<th>Member State</th>
<th>Indicators used</th>
<th>Why chosen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>Economic development</td>
<td>To select regions with poor economic development</td>
</tr>
<tr>
<td></td>
<td>Economic potential</td>
<td>To select regions with poor economic potential.</td>
</tr>
<tr>
<td></td>
<td>Growth</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Unemployment</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Structural risks</td>
<td>To measure dependency on sectors with weak productivity.</td>
</tr>
<tr>
<td>Belgium</td>
<td>Average income per capita</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Industrial employment rate in declining sectors</td>
<td>Chosen as a result of heavy job losses in some industrial sectors during 1993-1998.</td>
</tr>
<tr>
<td></td>
<td>The ratio of active population entering the job market (10 and 25 years) to active population exiting the market (50 and 65 years)</td>
<td>To evaluate tensions in the labour market.</td>
</tr>
<tr>
<td></td>
<td>Industrial unemployment rate</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td>Germany</td>
<td>Average unemployment rate</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>Per capita income of employed persons paying social security contributions</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>Infrastructure indicator</td>
<td>To assess structural infrastructure weaknesses.</td>
</tr>
<tr>
<td></td>
<td>Employment up to 2004</td>
<td>To project employment in the future.</td>
</tr>
<tr>
<td>Denmark</td>
<td>Weighted average of:</td>
<td>Socio-economic indicator used as an index.</td>
</tr>
<tr>
<td></td>
<td>- percentage of total population between 20-66 years;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- unemployment;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- income per capita;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- employment rate as a % of the population;</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- manufacturing sector employment as a % of the population.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Population density</td>
<td>Relevant especially for small islands.</td>
</tr>
<tr>
<td></td>
<td>Population growth</td>
<td>Relevant in Denmark where population is relatively low (compared to the EC).</td>
</tr>
<tr>
<td>Country</td>
<td>Indicator</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-----------</td>
<td>-------------</td>
</tr>
<tr>
<td>Spain</td>
<td>Population density</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>The rate of ageing of the population</td>
<td>To indicate future reductions in population density.</td>
</tr>
<tr>
<td></td>
<td>Employment rates in the industrial sector</td>
<td>To reflect the industrial sector dependency on the “comarca” in question.</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate of people aged over 45</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td>France</td>
<td>Average net taxable revenue per fiscal household</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>Relative weight of the industrial sectors potentially in crisis</td>
<td>To identify critical sectors in the regions concerned.</td>
</tr>
<tr>
<td></td>
<td>Job losses in relation to the total population since 1996</td>
<td>To measure the importance of job losses.</td>
</tr>
<tr>
<td>Finland</td>
<td>Unemployment rates</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>Long term unemployment and young unemployment as a % of total unemployment</td>
<td>To focus on specific features of unemployment</td>
</tr>
<tr>
<td></td>
<td>Negative growth of employment in industry</td>
<td>To assess the potential of the industrial sector.</td>
</tr>
<tr>
<td></td>
<td>Net population growth</td>
<td>Relevant in Finland where total population and population density are low.</td>
</tr>
<tr>
<td></td>
<td>Combination of GDP per capita, % of active population in agriculture and forestry and relation between non-active population and working population.</td>
<td>Composite labour market indicator.</td>
</tr>
<tr>
<td>Italy</td>
<td>Average unemployment rate (3 year series)</td>
<td>Standard socio-economic indicator.</td>
</tr>
<tr>
<td></td>
<td>Composite indicator: arithmetic mean of the unemployment rate and of the ratio of jobs in industry to the total number of jobs.</td>
<td>To identify the less favoured industrial areas.</td>
</tr>
<tr>
<td></td>
<td>Change in the number of jobs in agriculture (3 year series)</td>
<td>To assess employment in agriculture.</td>
</tr>
<tr>
<td>Ireland</td>
<td>Earned income</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Relative degree of urbanisation</td>
<td>As a proxy of development.</td>
</tr>
<tr>
<td></td>
<td>Employment in manufacturing, services and agriculture</td>
<td>To assess the relative importance of each sector.</td>
</tr>
<tr>
<td></td>
<td>Unemployment rate and structure</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td>Country</td>
<td>Indicator</td>
<td>Description</td>
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<tr>
<td>---------</td>
<td>---------------------------------------------------------------------------</td>
<td>-----------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Netherl.</td>
<td>Active population as a % of total population</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Registered unemployed</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>% of people employed aged 15-64</td>
<td>Demographic indicator</td>
</tr>
<tr>
<td></td>
<td>Income per household</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Population density</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td>Luxemb.</td>
<td>Unemployment rate</td>
<td>Standard socio-economic indicator</td>
</tr>
<tr>
<td></td>
<td>Industrial employment density</td>
<td>To assess employment in industry</td>
</tr>
<tr>
<td></td>
<td>Presence of industrial fallow land</td>
<td>To assess the intensity of use of industrial land.</td>
</tr>
<tr>
<td>Portugal</td>
<td>No indicators required.</td>
<td></td>
</tr>
<tr>
<td>Sweden</td>
<td>Total population per region</td>
<td>Relevant in the Swedish case of low population density.</td>
</tr>
<tr>
<td></td>
<td>Population density per region</td>
<td>Relevant in the Swedish case of low population density.</td>
</tr>
<tr>
<td>UK</td>
<td>Residential employment rates</td>
<td>To identify areas with a high proportion of local residents facing labour market exclusion.</td>
</tr>
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<td></td>
<td>Residential unemployment rates</td>
<td>To identify areas with a high proportion of local residents facing labour market exclusion.</td>
</tr>
<tr>
<td></td>
<td>Workforce unemployment rates</td>
<td>To identify areas with shortage of jobs for local unemployed people.</td>
</tr>
<tr>
<td></td>
<td>Manufacturing share of employment</td>
<td>To identify areas vulnerable to a continued concentration in manufacturing employment.</td>
</tr>
<tr>
<td></td>
<td>Ratio of the jobs available per resident in the proposed area compared with the same ratio of the entire zone.</td>
<td>To identify parts of zones that offer an equal number or less jobs to their residents than the entire zone offers to their residents. The proposed part incorporates the population likely to benefit from investment in the area.</td>
</tr>
</tbody>
</table>
PART II - List of papers/studies analysed

Germany

- “Sustainable Regional Development: System of Objective Indicators”, by the BBR (Federal Office for Building and Spatial Planning), Bonn.

Spain

- “Public investment and convergence in the different Spanish regions”, José Manuel González-Páramo, Diego Martínez López, Universidad de Jaén.
- “Crecimiento y convergencia económica regional en España, en el largo plazo” (Growth and regional economic convergence in Spain, in the long-term), Manuel Martín Rodríguez, Universidad de Granada, 1999.

Finland


France

Greece

- “Regional Convergence in Greece in the 1980s: AN econometric investigation”, Leo
  Michelis, Department of Economics, Ryerson University; Athanassios Papadopoulos and
  Gregory Papanikos, Department of Economics, University of Crete.

Ireland

- “Sources of Regional Divergence in the Celtic Tiger: Policy responses, Eoin O’Leary,
  Department of Economics, University College, Cork, Ireland.
- “Devising a strategy for balanced regional development in an open economy: lessons from
  Ireland”, Jim Walsh, Department of Geography & National Institute for Regional and
  Spatial Analysis”, Ireland.

Italy

- “Evaluating the employment impact of business incentive programmes in EU disadvantaged
  areas. A case from Northern Italy. Daniele Bondonio, May 2002, University of eastern
  Piedmont.

Sweden

- “Creating sub regions within the region – The region of Västra Götaland seeks its stability”,
  Christian Jensen/Svante Leijon, paper for the conference: “Regional transition: European
  regions and the challenges of development”, Gdansk, Poland, 2001.
  Sweden”, Ulf Wiberg, Bruno Jansson& Linda Lundmark, Department of the Social and
  Economic Geography, Imea University, Sweden, December 2002.

UK

- “Evaluation of Regional Selective Assistance 1991-1995”, DTI/National Assembly of
- “Chapter 11: Regional Policy”, Department of the Environment, Transport and the Regions,
- “Chapter 11: Building thriving regions, cities and communes”, Department of the
- “Regional planning in transition: planning for growth in two contrasting English regions”,
  David Counsell and Graham Haughton, Centre for City and Regional Studies, Department

Studies covering various Member States

- “EC Competition Policy and Regional Aid: An Agenda for the Year 2000?”, Fiona
  Wishlade, Regional and Industrial Research Paper Series, Number 25, December 1997,
  European Policies Research Centre, University of Strathclyde, UK.