

Study on the relevance and the effectiveness of ERDF and Cohesion Fund support to Regions with Specific Geographical Features – Islands, Mountainous and Sparsely Populated areas

Second Intermediate Report

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Study coordinated by ADE

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The views expressed are those of the
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2.4 Highlands and Islands

1. Identification

1.1. Identification of NUTS2 area and corresponding NUTS3 region(s)

| Code | Name | Nuts level | Country |
|-------|--|------------|---------|
| UKM6 | Highlands and Islands | 2 | UK |
| UKM61 | Caithness and Sutherland, Ross and Cromarty | 3 | UK |
| UKM62 | Inverness & Nairn and Moray, Badenoch & Strathspey | 3 | UK |
| UKM63 | Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute | 3 | UK |
| UKM64 | Eilean Siar (Western Isles) | 3 | UK |
| UKM65 | Orkney Islands | 3 | UK |
| UKM66 | Shetland Islands | 3 | UK |

Source: Eurostat, 2011.

1.2. Identification of relevant programmes supported by ERDF or Cohesion funds:

Regional Development Programmes for Highlands and Islands

| Period | Type | Name | CCI nr. | Allocation |
|-------------|------------------------|--|----------------|---|
| 2000 - 2006 | Regional Objective 1 | Highlands & Islands Special Transitional Objective 1 Programme | 1999GB161DO005 | Total: Euro853m ERDF: Euro190m |
| 2007 - 2013 | Regional (Convergence) | Highlands and Islands of Scotland | 2007UK161PO001 | Total: Euro291m ERDF: Euro122m |

Source: European Commission, 2011.

- ERDF represents 1.1% of the total EU investment earmarked for the United Kingdom under EU Cohesion Policy 2007-2013.
- ERDF represent approx. 59.43% of the total EU contribution for the United Kingdom under EU Cohesion Policy 2000-2006.
- Not eligible for Cohesion Funds

2. Regional features and Domestic Policy Responses

2.1. Main characteristics of NUTS2 and NUTS3 regions

The Highlands and Islands NUTS2 region incorporates all six of its constituent NUTS3 regions. However, where detailed breakdown to NUTS3 level is given only the five NUTS3 regions specified in the ToR (i.e. those with the appropriate geographical characteristics) are considered. NUTS3 region UKM62 is excluded (Inverness and Nairn & Moray, Badenoch & Strathspey). Region UKM62, it should be noted, includes the regional capital of Inverness.

2.2. Position, trends and dynamics

- The Highlands and Islands region is extremely small in terms of population, containing

only 0.7 of 1% of the UK population and with an extremely low population density of only 11.2 persons per km² in 2007 (compared with 250.8 for the UK as a whole). These broad NUTS2 region averages mask enormous within-region differences. The biggest NUTS3 sub-region (UKM62), which includes the Highlands and Islands main city and capital of Inverness, had a population of 181,290 in 2007 (41% of the total population of the region). However, the three regions wholly comprising islands have much lower populations ranging from only 19,815 for the Orkney Islands to 26,326 for the Western Isles (Outer Hebrides). The wide disparity in population size of the NUTS3 regions reflects the administrative arrangements in Scotland. NUTS3 regions UKM64, UKM65 and UKM66 correspond to local authority districts with separate islands councils. These have the same powers as other Scottish local government authorities, but are unusually small and have been granted local government status despite being as small as a special concession.

- There is enormous within-region variation in population densities too. The extreme northern NUTS3 region of Caithness & Sutherland, Ross & Cromarty (hereafter 'Caithness etc') has the lowest population density of 7.0 persons per km², but the more mountainous western seaboard region of Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute (hereafter 'Lochaber etc') is also extremely sparsely populated (7.2 persons per km² in 2007). By contrast, two of the three islands regions (Orkney and Shetland) are more heavily populated. Orkney is a fertile non-mountainous agricultural region with a population density of 20 persons per km² in 2007, while Shetland, less fertile but with strong oil and fishing sectors had a population density of 15 persons per km² in 2007. It should be noted that while Orkney and Shetland have high population densities by the standards of the wider Highlands and Islands region, these figures are still extremely low by both UK and Scottish central belt standards. The highest population density of all within the region is in the NUTS3 region UKM62 (Inverness & Nairn and Moray, Badenoch & Strathspey), with a 2007 population density of 26.6, reflecting the presence of the region's main city of Inverness. Even this, however, is very low by UK and Scotland standards. The whole region, therefore, can be said to experience issues arising from low population densities whatever the particular definition of 'sparsely populated areas' adopted at EU level or within Scotland.
- Outside of Inverness, the settlement pattern is characterised by many *scattered small communities* "often distant from each another, key markets and services due to a lack of economies of scale and a corresponding enterprise base" (2007-13 OP, p.8).
- The population has been slowly, but inexorably ageing and has a greater percentage of its population over 65 years old than either Scotland or the wider UK. Between 2001 and 2008, the percentage of the population aged 65 years and over rose from 17.3% to 19.0%. The comparable figure for Scotland as a whole in 2008 was 16.5% (Highlands and Islands Enterprise, *Area Profiles*, 2009).
- Migration patterns are complex. The bigger towns, particularly Inverness have benefited from in-migration from other parts of the region, and outer smaller islands in island groups have tended to lose migrants to the main island in each case. However, all three islands NUTS3 regions (Orkney, Shetland and Western Isles) have seen positive gross in-migration flows from the rest of the UK, often for life-style reasons. These flows have helped to offset gross out-migration by younger persons from the islands.

In-migration from non-EU overseas countries is very small, and most of these go to Inverness and not the rural areas. The period between 2001/2 and 2007 across the UK was characterised by tight labour markets and this was as true in the Highlands and Islands as elsewhere. During this period the Highlands and Islands experienced a higher rate of in-migration from the rest of the UK than did Scotland as a whole, and there was also a significant flow of in-migrants from the EU accession countries into the region during this period.

Population and population density

| Nuts code | Region name | Total Population (M) | | Incr. | Population density (per km2) | | Incr. |
|-----------|--|----------------------|-----------|-------|------------------------------|--------|-------|
| | | 2000 | 2007 | | (2000) | (2007) | |
| EU27 | | n.a. | n.a. | n.a. | 112.3 | 115.5 | 3% |
| UK | United Kingdom | 58.785246 | 60.781346 | 3% | 241.5 | 250.8 | 4% |
| UKM6 | Highlands and Islands | 0.4349 | 0.4424 | 2% | n.a. | 11.2 | n.a. |
| UKM61 | Caithness and Sutherland, Ross & Cromarty | n.a. | 0.090360 | n.a. | 6.9 | 7.0 | 1% |
| UKM63 | Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute | n.a. | 0.102631 | n.a. | 7.1 | 7.2 | 1% |
| UKM64 | Eilean Siar (Western Isles) | n.a. | 0.026326 | n.a. | 8.5 | 8.6 | 1% |
| UKM65 | Orkney Islands | n.a. | 0.019815 | n.a. | 19.5 | 20.0 | 3% |
| UKM66 | Shetland Islands | n.a. | 0.021914 | n.a. | 15.4 | 15.0 | -3% |

Source: Eurostat, 2011.

Turning to the economy, while the region has a lower GDP per capita than the UK average (Euro25.000 per capita compared with the national average of Euro33.500 in 2007), the region as a whole cannot be described as being particularly poor. Indeed, in 2007 its GDP per capita was virtually the same as the EU27 average. Moreover, during the buoyant years from 2000 to 2007, ahead of the global economic crisis which struck in 2008, the region shared in the generally UK prosperity with a slightly better growth in GDP per capita (not adjusted for inflation) than the UK as a whole.

Great care must be taken, however, in interpreting the GDP per capita data. The GDP data are heavily influenced by North Sea oil production. The presence of such a valuable natural resource and the extensive manufacturing (especially rig, ship and terminal construction and repair) and servicing activity for the oil fields which has accompanied the oil production makes this an unusual but very interesting case study. GDP growth is highly focused within the region in two ways:

- The high GDP per capita figures for Orkney and Shetland directly reflect oil industry activities. As the First Intermediate Report has shown, Shetland in particular is seen as a model for islands seeking to increase benefits from oil production, but nevertheless only a small part of oil production benefits directly the local economy. Parts of the mainland areas of the region also have GDP figures affected by construction and

servicing of the oil field, and some of that influence can be seen in the high GDP per capita value for the Caithness & Sutherland NUTS3 region. By contrast, neither of the two main western coastal and island regions (i.e. Lochaber etc and Western Isles) benefits much from the oil sector. The Western Isles did benefit substantially from oil-related construction activity in the earlier years of the oil field exploitation, but this effect is now largely gone.

- Inverness is the other major 'growth pole' for GDP expansion within the region, just as it has been for population growth.

The unemployment rate for the region in 2007 was low (3.4%) not only by EU27 standards (the region sharing in the wider UK low unemployment and higher employment rates of the UK), but was also relative to the UK as a whole and has been consistently lower than the overall Scotland average. Low unemployment for the region as a whole is mirrored by the region's consistently high *employment* rate (usually over 75% in most years) and high *activity* rate (also typically over 75%) prior to 2008. Once again, however, care must be taken in interpreting these apparently highly favourable figures, for two reasons:

- As with other agricultural, rural and fishing areas of the EU, there is a continuing issue of *underemployment* which is not picked up properly by the employment and unemployment data. This particularly affects areas away from the Inverness growth node and the main oil industry centres of activity.
- In many of the areas away from the Inverness sub-region key sectors (especially tourism and fishing) exhibit strongly *seasonal* employment patterns. This is likely to be particularly important for some of the islands and for the more mountainous areas.

GDP and growth rate

| Nuts code | Region name | GDP at current market prices | | Total Growth 99-07 (%) |
|-----------|---|------------------------------|--------|---------------------------|
| | | 2000 | 2007 | |
| | EU27 | 19,100 | 24,900 | 30.4% |
| UK | United Kingdom | 27200 | 33,500 | 39.6% |
| UKM6 | Highlands and Islands | n.a. | 25,000 | 41.9% |
| UKM61 | Caithness & Sutherland, Ross & Cromarty | 16,000 | 23,200 | 56.8% |
| UK M63 | Lochaber, Skye & Lochalsh, Arran & Cumbræ and Argyll & Bute | 18,900 | 22,000 | 29.4% |
| UK M64 | Western Isles | 15,500 | 22,500 | 38.9% |
| UKM65 | Orkney Islands | 19,000 | 26,500 | 40.2% |
| UKM66 | Shetland Islands | 22,100 | 30,900 | 45.8% |

Source: Eurostat, 2011.

Unemployment

| Nuts code | Region name | Unemployment rate % (15 or over years) | | Incr. |
|-----------|---|--|------|-------|
| | | 2000 | 2007 | |
| | EU27 | 9 | 7.2 | -20% |
| UK | United Kingdom | 5.6 | 5.3 | -18% |
| UKM6 | Highlands and Islands | n.a. | 3.4% | n.a. |
| UKM61 | Caithness & Sutherland, Ross & Cromarty | n.a. | n.a. | n.a. |
| UKM63 | Lochaber, Skye & Lochalsh, Arran & | n.a. | n.a. | n.a. |

| | | | | |
|-------|-----------------------|------|------|------|
| | Cumbræ, Argyll & Bute | | | |
| UKM64 | Western Isles | n.a. | n.a. | n.a. |
| UKM65 | Orkney Islands | n.a. | n.a. | n.a. |
| UKM66 | Shetland Islands | n.a. | n.a. | n.a. |

Source: Eurostat, 2011.

A complex and most interesting picture are painted by these sub-regional labour market characteristics. Islands do not necessarily do badly. It is true that the Western Isles generally have weak statistics (high unemployment, low employment and activity rates and low self-employment rates), but Orkney and Shetland island groups do much better, no doubt reflecting the impact of the oil industry and their rich agricultural and fishing endowments. Indeed, Orkney and Shetland come close to the economic core of the region around Inverness, an area with the lowest unemployment rate of only 2.0%. Note, however, the low rates of self-employment in the Inner Moray Firth economic heartland – this indicates just how dependent Inverness is on public sector employment.

Employment by economic activity, at NUTS levels 1, 2 and 3 ('000)

| Nuts code | Region name | Employment | | | | | |
|-----------|---|----------------------|------------|-------|------------------------|----------------|-------|
| | | Agriculture, fishing | | | Services ¹⁵ | | |
| | | 2000 | 2007 | Incr. | 2000 | 2007 | Incr. |
| EU27 | | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| UK | United Kingdom | n.a. | 374 (1.7%) | n.a. | n.a. | 21,651 (76.7%) | n.a. |
| UKM6 | Highlands and Islands | n.a. | 14 (6.6%) | n.a. | n.a. | 157 (73.7%) | n.a. |
| UKM61 | Caithness & Sutherland, Ross & Cromarty | n.a. | 4 (8.5%) | n.a. | n.a. | 31 (66.0%) | n.a. |
| UKM63 | Lochaber, Skye & Lochalsh, Arran & Cumbræ and Argyll & Bute | n.a. | 3 (6.5%) | n.a. | n.a. | 35 (76.1%) | n.a. |
| UKM64 | Western Isles | n.a. | 1 (7.1%) | n.a. | n.a. | 10 (71.4%) | n.a. |
| UKM65 | Orkney islands | n.a. | 1 (10.0%) | n.a. | n.a. | 7 (70.0%) | n.a. |
| UKM66 | Shetland Islands | n.a. | 2 (15.4%) | n.a. | n.a. | 9 (69.2%) | n.a. |

Source: Eurostat, 2011.

The table above gives employment in two broad sectors (Agriculture & Fishing and Services). The figures in each cell show total employment (in thousands), while the figures in parentheses are the percentage for that sector in total employment (i.e. agriculture plus manufacturing plus services) in the region or sub-region as a whole. Hence the Highlands and Islands NUTS2 region had 374,000 persons employed in Agriculture & Fishing in 2007 and this was 6.6% of the full employed labour force. As can be seen, this is well above the percentage for the UK as a whole (a mere 1.7% in Agriculture & Fishing). Looking down the list of NUTS3 sub-regions, two features stand out: (a) all of the sub-regions except Lochaber etc have bigger percentages employed in Agriculture and Fishing than for the Highlands and Islands as a whole, with Orkney and Shetland exhibiting particularly high proportions in Agriculture and Fishing (note that sub-region UKM62 – Inverness etc, not

¹⁵ Services include (except extra-territorial organizations); Wholesale and retail trade; hotels and restaurants, transport; Financial intermediation; real estate, public administration and community services; activities of households

shown in the table, had only 3.6% of its employed workforce in Agriculture and Fishing, the smallest in the whole region, again reflecting the size and importance of Inverness there), and (b) the Services sector is important throughout the Highlands and Islands, but with a particularly high share in Lochaber etc (76.1%) and in the sub-region not shown (UKM62 – Inverness etc) where the proportion in Services was 78.3% in 2007.

The continuing importance of tourism for the region's economy is revealed by the fact that in 2009 no fewer than 2.52M UK and overseas residents took trips to the region, spending an estimated £615M (*VisitScotland* figures). Tourists originating in the UK continue to predominate (77% of the total number of tourist nights). It is estimated that in 2007 there were some 15,000 tourist-related jobs in the Highlands and Islands region.

Almost 90% of tourist trips are made for 7 days or less to the region, reflecting the long term decline in traditional family holidays and the rise of shorter one week, and long weekend tourism, as well as day tip tourism as accessibility to the region by road and air has improved.

The percentage distribution of tourist beds in hotels and similar shows how important the western highland mountains and the big Inner Hebrides islands such as Skye are (Lochaber etc – 44% of the beds). Once again, however, the number of hotel beds figures need to be handled with some care as types of accommodation used by tourists do vary a lot sub-regionally. In the three islands sub-regions, for example, hotel use is smaller than elsewhere and self-catering, B&B etc more used.

Tourism

| Nuts code | Region name | Tourism (Nr. of bed-places*) | | |
|-----------|--|------------------------------|--------------|-------|
| | | 2000 | 2007 | Incr. |
| EU27 | | 10,639,232 | 11,715,177 | 10% |
| UK | United Kingdom | 1,119,433 | 1,245,064 | 11% |
| UKM6 | Highlands and Islands | 42,433 | 26,208 | -38% |
| UKM61 | Caithness & Sutherland, Ross & Cromarty | 8,615 | 3,254 (12%) | -62% |
| UKM63 | Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute | 20,591 | 11,624 (44%) | -44% |
| UKM64 | Western Isles | 1,519 | 1,328 (5%) | -13% |
| UKM65 | Orkney Islands | 1,232 | 1,056 (4%) | -14% |
| ES424 | Shetland Islands | 995 | 918 (4%) | -8% |

* Hotels and similar establishments

Source: Eurostat, 2011.

Finally, it is worth examining changes in transport and IT accessibility for the region during the period since 2000. For such a remote region with serious accessibility problems arising from the many islands, the mountainous terrain in parts and the scattered communities in the SPAs, transport and IT access are key issues.

Eurostat data, as can be seen, has many gaps transport infrastructure and access to ICT. However, data do exist for the year 2008 for both percentage of households with internet access and percentage with broadband access. These show that in 2008 some 84% of Highlands and Islands residents had internet access compared with a UK average of only

71%. An equally strong performance for the region is found with broadband access, with 77% of Highlands and Islands residents having broadband access in 2008, compared to only 62% in the UK as a whole and an even smaller 58% for Scotland as a whole. Successive EU programmes have clearly helped in this great step forward. The 2007-13 OP does, however, identify considerable within-region variability in broadband coverage despite the gains made in 2000-06. It notes that while Shetland has the highest broadband access rate in the region (92% of connecting organisations), it remains low in Caithness and Sutherland (64%), Lochaber etc (66%) and the Western isles (67% - Scottish Enterprise data).

Turning to transport access, the 2007-13 OP notes three key remaining transport access problems:

- The very limited rail network, with no coverage of the north west of the region and infrequent services on most lines.
- The continued high cost and critical nature of the islands ferries
- Despite rapid growth, continued high cost and limited air transport infrastructure.

Accessibility

| Nuts code | Region name | Motorways (km) | | | Other roads (km) | | | Railway lines (km) | | |
|-----------|-----------------------|----------------|--------|-------|------------------|-----------|-------|--------------------|------|-------|
| | | 2000 | 2007 | Incr. | 2000 | 2007 | Incr. | 2000 | 2007 | Incr. |
| | EU27 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |
| UK | United Kingdom | 3577.2 | 3673.6 | +3% | 411,239.8 | 416,316.3 | 1% | 17,008.0 | | |
| UKM6 | Highlands and Islands | 0 | 0 | 0 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. |

Source: Eurostat, 2011.

ICT: Households that have Broadband Internet access at home

| Nuts code | Region name | Households that have Broadband Internet access at home (%) | | |
|-----------|-----------------------|--|------|---------------------|
| | | 2000 | 2007 | Variation 00-07 (%) |
| | EU27 | n.a. | n.a. | n.a. |
| UK | United Kingdom | n.a. | 57 | n.a. |
| UKM6 | Highlands and Islands | n.a. | n.a. | n.a. |

Source: Eurostat, 2011.

The 2007-13 OP, on the basis of the ex ante evaluation analysis developed a detailed SWOT analysis for the region as a whole.

Three particular weaknesses deriving from the geographical characteristics of the region were separately identified:

- “ A *rural based economy* with geographical peripherality, sparsity of population and dispersed settlement patterns” (p.38)
- “Some *peripheral, fragile communities*..... (with) a small enterprise base and suffering from lack of access to key services, market and community facilities” (p.38)
- “*Transport and parts of the communications infrastructure* of the region continues to provide limited and costly access for much of the....population” (p.38).

To these are added the other key weaknesses of (a) low productivity, a small enterprise base, low new firm formation rates, weak research and innovation and a weak higher

education system.

The region's strengths, however, are many, and one is based on the geographical characteristic of the unusually high quality *green environment and cultural heritage*. Other (non-geographical) strengths identified by the OP are good employment and activity rates, a better than expected demographic profile in terms of population loss, and a developing set of specialist research expertises. Finally, the OP identifies three geographically-related key opportunities for the future:

- (a) Renewable energy for new technology development (especially wind, marine and biomass)
- (b) Renewable energy for local use
- (c) Tourism based on the natural and cultural heritage.

2.3. Domestic Policy Responses

The Highlands and Islands region is one of the most unusual and distinctive of the NUTS2 EU regions in terms of the focus of domestic (i.e. Scottish rather than UK) policy responses to the combination of geographical characteristics of interest (i.e. islands, mountainous regions and sparsely populated regions). The region, as its very name suggests, has for centuries been perceived by the rest of the UK and within Scotland itself as being highly distinctive and in need of special policy treatment. Part of this is the result of the highly distinctive Gaelic cultural and language legacy, together with other differences which set it aside somewhat from the rest of the UK. More important still, however, are the geographical characteristics. In 1976, a powerful and well funded Scottish Development Agency (SDA) was established to act as a focus for regional development policy in Scotland. From the very start, however, it was recognised that the Highlands and Islands was such a distinctive region that the regional policy effort would need to be specially tailored for this particular part of Scotland. For this reason a separate Highlands and Islands Development Board (HIDB) was created at the same time as the SDA, with its own budget (initially funded from the UK national government via the Scottish Office in Edinburgh, and later after devolution from the Scottish Government in Edinburgh). The HIDB immediately upon its creation developed highly distinctive policy initiatives more appropriate for such a unique area. The region has enjoyed some 35 years of special policies operated through the HIDB, and its modern successor Highlands and Islands Enterprise (HEI).

The domestic policy context for the 2000-06 ERDF programme for the Highlands and Islands must be seen in the light of the election of the first Scottish Parliament since 1707. This new devolved parliament was elected in 1999 and the 2000-06 SPD was therefore drawn up at a time of rapid change, with virtually all of the policy powers relevant for regional policy (e.g. education, training, enterprise, lifelong learning, social inclusion etc) being transferred from the UK government's Scottish Office to the new Scottish Executive government. The new Scottish Parliament was given very extensive powers, and only a small number of powers (including employment policy and social security) retained by the national government in London. The domestic policy response for both the 2000-06 programme and the current 2007-13 programme essentially a Scottish one rather than a UK one.

The 2000-06 SPD sought to align itself with a number of newly-emerging Scottish strategic plans once the Scottish Executive took power in 1999. The two initial key strategies were *Partnership for Scotland: an Agreement for the First Scottish Parliament* and *Making It Work Together: A Programme for Government*. The *Partnership for Scotland* established the key broad strategic parameters which have continued to today to guide the ERDF programmes, namely:

- (a) A focus on *enterprise policy* fostering enterprises and new business creation, training and lifelong learning.
- (b) A strong *social inclusion* element across all individual policies developed.
- (c) Support for *rural communities* and the rural economy.
- (d) A commitment to environmentally *sustainable* development.

Making It Work Together directly built upon *Partnership for Scotland* by putting quantitative targets on the broad principles of the strategy and establishing a list of ten key priorities ('people's priorities'), one of which was to "support and enhance rural life, rural communities and the rural economy".

In addition to the two path-breaking Scottish Executive strategic documents, the 2000-06 SPD also sought to align itself with a new *Scottish Agricultural Strategy* and a new *Scottish Fisheries Strategy*. In addition to the Scottish government (i.e. national government) context, the Highlands and Islands region also in the 2000-06 period had a distinctive local context. As noted earlier, there was a pre-existing regional development agency, Highlands and Islands Enterprise. Responsibility for HIE was transferred from the UK national government's Scottish Office in 1999 to the new Scottish Government. A new *HIE Strategy for Enterprise Development* was produced in February 1999. The 2000-06 SPD sought to align itself with the key priorities of the HIE, with a particular focus being established for:

- (a) Growing businesses
- (b) Strengthening skills, and
- (c) Strengthening communities.

In addition, the 2000-06 SPD was also developed within the context of a *Highland Community Plan*, drawn up by a partnership led by local authorities, and a series of individual local authority plans (e.g. the *Orkney Island Council Strategic Plan*). However, what is most striking about both the 2000-06 SPD and the 2007-13 OP is how closely aligned are both the programme area boundaries and the strategic thrust with HIE. It is this alignment between the SPD/OPs and HIE's strategic approach which the dominant feature of Highlands and Islands regional policy.

Examination of HIE policy documents is extremely illuminative of how the region's geographical characteristics are perceived by this powerful quasi-autonomous government body ('quango'). The HIE is a rare case of a region where geographical characteristics are *explicitly* recognised in its procedures for targeting its budget resources. This explicit recognition of issues arising from geographical characteristics has spilled over from the HIE strategy into the 2000-06 and 2007-13 ERDF programmes.

Over the period covered by the 2000-06 and 2007-13 ERDF programmes, HIE has deliberately sought to increase funding to two particular types of localities within the Highlands and Islands region: (a) *Fishing Dependent Areas* (FDAs), and (b) *Fragile Areas*. The

former category is, of course, defined on sectoral terms and can include either islands, mountainous regions, sparsely populated areas or all three. Much more interesting are the ‘fragile areas’ because the objective criteria used to define these areas include geographical characteristics. These areas are delineated using local authority *wards* (i.e. sub-units of local council areas) with some, though not necessarily all, of the following criteria:

| <i>Criteria</i> | <i>Criteria</i> |
|--|---|
| Islands which lie off other islands and are not linked by a causeway | High percentage of households with no car |
| A distance of more than 50 miles from a population centre of 5,000 or more | High dependency on primary sector employment |
| Over 70% of roads are single track | High Income Support claim rate |
| An island with a population of less than 2,500 | Population outwith 10 minutes drive from 5 key services including Doctor, Post Office, Primary School, Petrol Station, and Food Shop. |
| Population density less than the regional average | Population decline in 0-15 years group |
| More than 20% of the population is of pensionable age | Population outwith 1.5 hours drive from Inverness |
| Population loss between the last two censuses | Problem of vandalism and rubbish dumping |
| In-migration of economically active below the region average | High crime rate |
| Economic activity rates below the regional average | Large proportion of alcohol and drug abuse and serious mental health admissions |
| High average and/or seasonal unemployment | Restricted language development of pre-school children meaning 60% or more of intake not ready for primary schooling |
| Long-term unemployment more than 25% above the regional average | Adverse areas with climatic conditions |
| High youth unemployment | |

Source: HIE ERDF programme, 2000-06 and 2007-13

This list is highly instructive. There are nine of the 23 criteria which are explicitly geographical characteristics. The rest are either demographic, labour market or deprivation characteristics. Two of the nine geographical characteristics relate to islands (one being ‘islands off islands’ and the other a ‘small islands’ measure). Hence there are really three geographical characteristics here – islandness, remoteness and small size. In addition, one of the nine geographical criteria is concerned population density (i.e. sparsely populated areas). No fewer than five of the nine geographical criteria are related to accessibility and remoteness. Interestingly, not a single criterion identifies mountainous areas, except possibly ‘adverse climatic conditions’, but this type of criterion is by no means confined just to the mountains in the region. The onus is therefore on remoteness, islandness and low population densities, but with very little evidence that being mountainous carried with it a perception of particular additional problems.

The definition of ‘fragile areas’ by HIE is of particular relevance for the ERDF programmes because in both the 2000-06 SPD and the 2007-13 OP not only is the ERDF eligible area deliberately co-terminous with the HIE area, but also the HIE definition of ‘fragile areas’ is identical to that adopted in the ERDF programmes. What we have here, therefore, is a case of an ERDF programme which is very closely coordinated with a national government’s regional development agency policy, and moreover a case in which

geographical characteristics are brought to bear to help to target available funding within the broader region.

Before turning to the HIE policy programme as the principal arm of domestic policy response, it should be noted that regional policy in the Highlands and Islands is not solely the responsibility of HIE. A number of other Scottish Government ministries also operate policy initiatives which deliberately target parts of the Highlands and Islands region based on their geographical characteristics, and Scottish Government decisions have also favoured some parts of the region over others. Three are of particular importance:

- (a) A system of subsidies for the main shipping lines serving the Scottish islands is financed and administered by the Scottish Government rather than HIE. Calmac Ferries, Northline Ferries and the Shetland Line are all heavily subsidised as are a number of air routes to smaller islands.
- (b) Infrastructure costs for ferry terminals and smaller airports are subsidised through the Scottish Government. The disproportionate costs of road transport in the mountainous and sparsely populated areas are also effectively cross-subsidised through central government ministries.
- (c) The three island groups of the Western Isles, Orkney Islands and Shetland Islands have been allowed their own local government councils (the 'islands councils'), despite having populations much smaller than virtually all other local councils in Scotland. It should be noted that by no means all of the islands in the region have been granted this privilege (e.g. Skye and the other Inner Hebrides are grouped in with the mainland for local government purposes). The decision to keep separate islands councils for the Western Isles, Orkney and Shetland has meant that they have been able to develop local policies, including economic development initiatives, fine tuned to their own needs. In addition, in the case of the Shetland Islands, the local council has been able to engage closely with oil industry companies in ways which have enabled Shetland to benefit greatly from oil revenues and establish several heritage funds for investment in the local economy for the day when the oil runs out.

The broad principles and strategic priorities established within the 2000-06 SPD and the then newly –emerging Scottish Government and HIE plans have by and large continued into the post-2006 period. The 2007-13 OP was again drawn up in the context of both a Scottish Government and the more local HIE planning arrangements. At the Scotland level the 2007-13 OP as it was being drawn up sought to align itself with the Scottish Government's 2004 *Framework for Economic Development in Scotland*. This identified four key outcomes, of which regional development is one (the others being economic growth, closing the opportunity gap and sustainable development). At the present time it is the 2007 *Government Economic Strategy* (GES) which sets the context for the on-going ERDF programmes. This has set five strategic priorities (Learning, Skills & Wellbeing, Business Environment, Infrastructure Development & Place, More Effective Government and Equity & Opportunities), together with four strategic objectives (Greener, Healthier, Smarter and Wealthier & Fair).

Within this over-arching national strategic plan the 2007-13 OP also sought to align itself with separate Scottish Government strategies for *Green Jobs* (including renewable

technologies, an important issue in the Highlands and Islands), a *Science Strategy* (in which a new University of the Highlands and Islands is seen as an important component), *Securing a Renewable Future* (with renewable energy being of particular importance for the Highlands and Islands), a *National Transport Strategy* (including ICT and communications infrastructure as well as the transport subsidies discussed earlier, both very important for the Highlands and Islands region), and a *New Strategy for Scottish Tourism* (which stresses the importance of cultural and natural assets for the Highlands and Islands part of the strategy). In addition, Scotland also has a strategic plan for *Scotland's Culture* and a *National Plan for Gaelic*, the latter being of particular importance in the Highlands and Islands region. The core of the *National Plan for Gaelic* in the Highlands and Islands region is to improve access by local residents to services in the Gaelic language.

As noted earlier, however, it is the link between HIE strategy and the 2007-13 OP for ERDF which is the key to the domestic policy response in the Highlands and Islands. HIE is currently operating within its *Operating Plan 2011-14*. This has four key priorities:

- (a) Supporting businesses and social enterprises (i.e. social inclusions as well as a private enterprise focus).
- (b) Strengthening communities and fragile areas (discussed earlier).
- (c) Developing key sectors, namely creative industries, energy, financial & business services (still very weak in the region), the food & drink sector, tourism and life sciences (especially bio-science and research).
- (d) Developing opportunities for a competitive and low carbon region (including IT and the new university).

HIE has very recently found it necessary to respond to the 2008 economic crisis by developing a *Recovery Plan* for the region, but this will have little impact on the 2007-13 OP which is largely now rolled out and which is essentially based on the HIE longer term strategic priorities.

3. ERDF Programme priorities and fields of intervention

The total EU budget allocation for the Highlands and Islands regional programme for the period 2000-2006 was of Euro 319 mio. The contribution came from different funds, namely the ERDF Euro190M (60%), followed by ESF Euro62M (19%), EAGGF Euro 38 mio. (12%) and finally the FIG Euro 29 mio. (9%). During this period the region also benefited from funding from the Community Initiatives of Interreg, Leader and Equal.

For the 2007-2013 programming period, the regional operational programme received a total of Euro122M coming from the ERDF. This allocation represents a decrease of 36% with respect to previous programming period 2000-2006 even before inflation is allowed for.

It is possible; by looking at out-turn commitments and using the SWECO data base, to examine how the 2000-06 allocations were eventually divided up amongst the NUTS3 sub-regions within the Highlands and Islands. This cannot, of course be done for the 2007-13 programme since spending is still continuing for this programme. The data in the table below refer only to ERDF commitments (the region gets no CF monies).

| Period | Programme | Type of sub-region | Objective 1 | Per capita |
|---------------|--|-----------------------------|-------------------|-------------|
| 00-06 | Objective 1 Special Phasing Out Transitional Programme for "Highlands and Islands" | | EuroM | Euro |
| Region | | | | |
| UKM61 | Caithness & Sutherland, Ross & Cromarty | Sparsely populated | 41 (22%) | 454 |
| UKM62 | Inverness, Nairn & Moray, Badenoch & Strathspey | | 60 (32%) | 331 |
| UKM63 | Lochaber, Skye & Lochalsh, Arran & Cumbrae and Argyll & Bute | Islands, Sparsely populated | 53 (27%) | 516 |
| UKM64 | Western Isles | Islands | 13 (7%) | 494 |
| UKM65 | Orkney Islands | Islands | 11 (6%) | 555 |
| UKM66 | Shetland Islands | Islands | 12 (6%) | 548 |
| UKM6 | Highlands and Islands | All | 190 (100%) | 429 |

Source: European Commission, 2011. Notes: Per capita commitments estimated using population as at 2007; ERDF commitments only.

This table is of great interest since it shows that the 2000-06 programme, based as it was on procedures which in part sought to target areas with particular geographical characteristics (especially the *fragile areas* defined by HIE), did indeed succeed in targeting more on those sub-regions which were islands or sparsely populated. It should be noted that most of UKM61 and UKM63 are also mountainous. The island regions of Orkney, Shetland and the Western Isles have been particularly favoured, while the core Inverness sub-region (UKM62) obtained the lowest per capita commitments.

Looking at the budget allocated by Priority and Measure, the table below shows that for the 2000-2006 period, and concentrating on those Priorities funded by ERDF, EAGGF and the FIFG (Priority 3 is wholly ESF funded), the following key characteristics of the programme can be discerned:

- Some 20% of the 24% of the budget allocated to Priority 1 (Enhancing Business Competitiveness) went to just two Measures – the provision of serviced sites and premises (9%) and support for investment by new and existing firms (11%).
- Within Priority 2 (Creating the Conditions for Regional Competitiveness), it is communications infrastructure which dominates (19% of the total budget out of the 33% allocated to this Priority). This shows a clear recognition of the importance of the challenge posed by remoteness for the region. Community and social infrastructure too figures prominently in this Priority (6% of the budget).
- The bulk of help for rural communities is found in Priority 4 (Assisting Rural Communities), especially sub-Priority 4A (Rural Development and Fisheries), with a massive 20% of the full budget. It is here that ERDF was most closely coordinated with EAGGF and FIFG in the 2000-06 period. The 'Rural Development and Fisheries' Measure includes direct support for agricultural investment and marketing, but also diversification away from farming. It also includes aquaculture and other fishing community diversification as well as direct support for investment and scrapping in the fishing sector. The second sub-Priority in Priority 4 (Assisting Rural Communities) is a much smaller Community Economic Development (CED) Measure. While this is only 3% of the full budget, it does reflect the strong UK-wide commitment to CED as a means of trying to overcome social exclusion, a policy which is particularly well suited to a region such as the Highlands and Islands given its strong community and cultural traditions, and distinctive forms of enterprise such as crofting.

The 2000-06 programme set itself three key objectives: (a) Enhancing enterprise (as we have seen in practice mainly by supporting business investment and sites/premises, as well as training in the ESF interventions), (b) Enhancing key drivers, and (c) Enhancing communities (especially rural and fishing communities which have been given their own Priority. The objective of 'Enhancing key drivers' has been realised partly through the support for some 100-200 'high growth potential' firms, but more importantly by a focus on what are regarded as key sectors for future growth. Interestingly, these are the same key sectors targeted by HIE and shows the closely overlapping nature of the EU programme with HIE strategy.

Allocation by priority

| 2000-2006: Objective 1 Programme for Highlands and Islands | Contribution (Euros) | | | |
|--|----------------------|--------------------|-------------|--------------------|
| Priority and Measure | Total | EU | % | National |
| 1 - Increasing Business Competitiveness, Creating Employment and Increasing Incomes | 196,220,000 | 74,970,000 | 24% | 121,250,000 |
| 1.1 Enhance marketing, advisory and support services to existing and new businesses | 7,068,107 | 2,709,400 | 1% | 4,358,707 |
| 1.2 Stimulate private sector investment in existing and new businesses | 92,572,020 | 35,580,000 | 11% | 5,699,020 |
| 1.3 Support development of innovation and R&D, including industry and academic links | 18,171,952 | 6,913,600 | 2% | 11,258,352 |
| 1.4 Overcoming market failure in the provision of serviced sites and premises for businesses | 78,407,921 | 29,767,000 | 9% | 48,640,921 |
| 2 – Creating the Conditions for Regional Competitiveness | 315,806,000 | 106,063,000 | 33% | 209,203,000 |
| 2.1 Strategic investments in communications infrastructure | 191,179,851 | 60,649,000 | 19% | 130,530,851 |
| 2.2 Improving regional competitiveness through developing the information society | 32,212,500 | 12,711,000 | 4% | 19,501,500 |
| 2.3 Improve the provision of energy networks, energy efficiency and the sustainable exploitation of renewable energy potential | 19,611,052 | 7,632,000 | 2% | 11,979,052 |
| 2.4 Waste management, water and sewerage provision and pollution control | 18,178,600 | 6,018,000 | 2% | 12,160,600 |
| 2.5 Community and social infrastructure | 54,623,997 | 19,053,000 | 6% | 35,570,997 |
| 3 – Human Resource Development | 122,759,386 | 60,683,386 | 19% | 62,076,000 |
| 3.1 Active labour market policies to fight unemployment | 33,516,000 | 16,758,000 | 5% | 16,758,000 |
| 3.2 Promoting social inclusion | 25,869,683 | 12,422,940 | 4% | 13,446,743 |
| 3.3 Lifelong learning | 12,717,771 | 6,099,000 | 2% | 6,618,771 |
| 3.4 Developing adaptability and entrepreneurship | 41,519,952 | 20,885,456 | 7% | 20,634,496 |
| 3.5 Increase participation of women in the labour market and address gender imbalances within the labour market | 9,135,980 | 4,517,990 | 1% | 4,617,990 |
| 4 – Assisting Rural Communities | 222,953,029 | 71,804,345 | 23% | 151,148,684 |
| 4A Rural development and fisheries | 202,647,449 | 62,393,767 | 20% | 140,253,682 |
| 4B Community economic development | 20,305,580 | 9,410,578 | 3% | 10,985,002 |
| 5 – Technical Assistance | 8,417,694 | 4,186,694 | 1% | 4,231,000 |
| Total (all Priorities) | 866,156,109 | 317,707,425 | 100% | 548,449,684 |

Source: European Commission, 2011. Notes: 'EU' contribution includes ERDF, ESF, EAGGF, and FIFG; 'National' contribution includes public and private funding.

The table below sets out the funding allocations for the 2007-13 programme. Figures are given just for the ERDF programme. Unlike 2000-06, where all four funds (ERDF, ESF, EAGGF and FIFG) were integrated in a single programme, for the 2007-13 period the

ERDF and ESF programmes are separate (although, as shall be shown later they are closely interlinked in the Highlands and Islands region), as are EAFRD and EFF programmes. The table shows an overall ERDF funding for the period of Euro122M, peaking in 2008. This is well down on the 2000-06 programme and represents only about 2% of all government spending in the region, about half that in 2000-06.

| 2007-2013: ERDF Programme for Highlands and Islands | | Contribution (Euros) | | |
|---|--------------------|----------------------|-----------|-------------------------|
| Year | Total | ERDF | % | National public funding |
| 2007 | 71,470,255 | 29,896,923 | 42 | 41,573,332 |
| 2008 | 62,205,243 | 26,021,250 | 42 | 36,183,993 |
| 2009 | 52,541,047 | 21,978,593 | 42 | 30,562,454 |
| 2010 | 42,465,399 | 17,763,820 | 42 | 24,701,579 |
| 2011 | 31,965,706 | 13,371,664 | 42 | 18,594,042 |
| 2012 | 21,029,043 | 8,796,718 | 42 | 12,232,325 |
| 2013 | 9,642,124 | 4,033,424 | 42 | 5,608,700 |
| 2007-2013 Total | 291,318,817 | 121,862,392 | 42 | 169,456,425 |
| By Priority | | | | |
| 1. Enhancing Business Competitiveness, Commercialization and Innovation | 118,815,828 | 47,526,332 | 40 | 71,289,496 |
| 2. Enhancing Key Drivers of Sustainable Growth | 92,073,810 | 41,433,214 | 45 | 50,640,596 |
| 3. Enhancing Sustainable Growth of Peripheral and Fragile Areas | 73,117,433 | 29,246,973 | 40 | 43,870,460 |
| 4. Technical Assistance | 7,311,746 | 3,655,873 | 50 | 3,655,873 |
| 2007-2013 Total | 291,318,817 | 121,862,392 | 42 | 169,456,425 |

Source: European Commission, 2011.

As can also be seen, there are only *three* main Priorities in the 2007-13 programme (the fourth being Technical Assistance). However, *for the first time we see a separate Priority devoted to areas with specific geographical characteristics – the “peripheral and fragile areas”*. This Priority has been allocated 25% of the total budget for 2007-13. The peripheral and fragile areas are the areas designated by HIE. As has already been shown, the key geographical characteristics for designating these are remoteness (peripherality), sparse population and insularity and not mountainous terrain. The criteria for selection of these areas in 2007-13 are somewhat different from the 2000-06 period criteria, but substantially the same in the geographically specific criteria used:

| Criteria |
|--|
| Islands which lie off other islands and are not linked by a causeway |
| A distance of more than 50 miles from a population centre of 5,000 or more |
| Over 70% of roads are single track |
| An island with a population of less than 2,500 |
| Population density less than 9 persons per km ² |
| More than 20% of the population is of pensionable age |
| Population loss between the last two censuses |
| In-migration of economically active below the region average |
| Economic activity rates below the regional average |
| High average and/or seasonal unemployment |
| Long-term unemployment more than 25% above the regional average |

The shaded cells again show the geographically specific characteristics.

Comparison of ERDF commitments by fields of intervention, 2000-2006

SWECO data base analysis, conducted for DG Regio in 2008 allows more comparability than the above tables between the region and the other 14 case study regions being studied as part of the project. This is confined to ERDF and CF commitments. No CF interventions occur for the Highlands and Islands and hence the analysis in the two tables below is solely for ERDF. The first table is for the 2000-06 programme while the second is for 2007-13.

Analysis by Fields of Intervention: Highlands and Islands 2000-06 Programme: ERDF only.

| Fields of intervention | Territorial level (Nuts) | EU | EU | EU | EU | UK | UKM6 | UKM61 | UKM63 | UKM64 | UKM65 | UKM66 |
|---|--------------------------|---------------|---------------|---------------|--------------------|---------------|-----------------------|----------------------------|-------------------------------|---------------|----------------|------------------|
| | Name | | Mountains | Islands | Sparsely populated | | Highlands and Islands | Caithness & Sutherland ... | Lochaber, Skye & Lochalsh ... | Eilean Siar | Orkney Islands | Shetland Islands |
| | Region eligibility | Obj. 1 | Obj. 1 | Obj. 1 | Obj. 1 | | Obj. 1 | Obj. 1 | | Obj. 1 | Obj. 1 | Obj. 1 |
| | SGF | | M | I | S | | | SP | SP | ISP | I | I |
| 11 Agriculture | | 0,1% | 0,1% | | 0,9% | | 0,0% | | | | | |
| 12 Forestry | | 0,0% | | | | | 0,0% | | | | | |
| 13 Promoting the adaptation and the development of rural areas | | 0,4% | 0,3% | 0,0% | 0,7% | 1,6% | 0,0% | | | | | |
| 14 Fisheries | | 0,1% | 0,2% | 0,4% | | 0,0% | 0,0% | | | | | |
| 15 Assisting large business organisations | | 5,8% | 4,8% | 3,5% | 3,4% | 2,3% | 0,0% | | | | | |
| 16 Assisting SMEs and the craft sector | | 9,6% | 12,6% | 16,1% | 19,2% | 45,9% | 35,6% | 35,6% | 35,6% | 35,6% | 35,6% | 35,6% |
| 17 Tourism | | 2,9% | 4,5% | 7,7% | 3,7% | 6,1% | 4,8% | 4,8% | 4,8% | 4,8% | 4,8% | 4,8% |
| 18 Research, technological development and innovation (RTDI) | | 6,2% | 4,1% | 3,7% | 9,3% | 7,9% | 3,6% | 3,6% | 3,6% | 3,6% | 3,6% | 3,6% |
| 21 Labour market policy | | 0,1% | 0,0% | 0,0% | | 0,2% | 0,0% | | | | | |
| 22 Social inclusion | | 0,1% | 0,0% | 0,0% | 0,0% | 2,4% | 0,0% | | | | | |
| 23 Developing education and vocational training | | 1,5% | 0,8% | 0,3% | 1,6% | 2,3% | 0,0% | | | | | |
| 24 Workforce flexibility, entrepreneurial activity, innovation, ICT | | 0,0% | 0,0% | | | 0,3% | 0,0% | | | | | |
| 25 Positive labour market actions for women | | | | | | 0,2% | 0,0% | | | | | |
| 31 Transport infrastructure | | 34,0% | 33,6% | 22,9% | 39,1% | 5,7% | 31,9% | 31,9% | 31,9% | 31,9% | 31,9% | 31,9% |
| 32 Telecommunication infrastructure and information society | | 3,2% | 3,9% | 5,0% | 4,9% | 4,2% | 6,7% | 6,7% | 6,7% | 6,7% | 6,7% | 6,7% |
| 33 Energy infrastructure | | 1,0% | 1,0% | 1,7% | 0,3% | 0,4% | 4,0% | 4,0% | 4,0% | 4,0% | 4,0% | 4,0% |
| 34 Environmental infrastructure | | 19,3% | 17,3% | 17,0% | 8,2% | 0,9% | 3,2% | 3,2% | 3,2% | 3,2% | 3,2% | 3,2% |
| 35 Planning and rehabilitation | | 10,1% | 10,7% | 15,1% | 5,8% | 15,7% | 0,0% | | | | | |
| 36 Social and public health infrastructure | | 4,2% | 4,6% | 4,2% | 1,7% | 1,8% | 7,6% | 7,6% | 7,6% | 7,6% | 7,6% | 7,6% |
| 41 Technical Assistance and innovative actions | | 1,4% | 1,5% | 2,2% | 1,2% | 2,1% | 2,5% | 2,5% | 2,5% | 2,5% | 2,5% | 2,5% |
| Total | | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% | 100,0% |
| <i>Total 1 Productive environment</i> | | <i>25,1%</i> | <i>26,7%</i> | <i>31,5%</i> | <i>37,2%</i> | <i>63,9%</i> | <i>44,1%</i> | <i>44,1%</i> | <i>44,1%</i> | <i>44,1%</i> | <i>44,1%</i> | <i>44,1%</i> |
| <i>Total 2 Human resources</i> | | <i>1,8%</i> | <i>0,9%</i> | <i>0,3%</i> | <i>1,6%</i> | <i>5,4%</i> | <i>0,0%</i> | | | | | |
| <i>Total 3 Basic infrastructure</i> | | <i>71,7%</i> | <i>71,0%</i> | <i>65,9%</i> | <i>60,0%</i> | <i>28,7%</i> | <i>53,4%</i> | <i>53,4%</i> | <i>53,4%</i> | <i>53,4%</i> | <i>53,4%</i> | <i>53,4%</i> |
| <i>Total 4 Technical Assistance</i> | | <i>1,4%</i> | <i>1,5%</i> | <i>2,2%</i> | <i>1,2%</i> | <i>2,1%</i> | <i>2,5%</i> | <i>2,5%</i> | <i>2,5%</i> | <i>2,5%</i> | <i>2,5%</i> | <i>2,5%</i> |

Source: Sweco, 2008.

This table for 2000-06 reveals a number of very interesting features of the manner in which ERDF funding was brought to bear for the Highlands and Islands Phasing Out Objective 1

region:

- (a) Despite the strong commitment in the 2000-06 SPD to enhancing enterprise and the business environment, in practice the proportion of ERDF committed to 'Productive Environment' (44.1% is lower than the UK average (63.9%). This comparison, however, is unfair, because the other UK regions obtaining ERDF support are in much more urbanised regions, many with a long industrial history. It is inevitable, therefore, that a much more rural region such as the Highlands and Islands, and particularly one so remote from the rest of the UK and EU, and with many islands and scattered communities would need greater investment in basic infrastructure (53.4% compared to the UK average of 28.7%). A much better comparison is between the Highlands and Islands and other EU Objective 1 regions. Here we see that the region has been able to move on much further into Productive Environment support than other EU Objective 1 regions (44.1% compared with an EU average of only 25.1%). Moreover, this bare statistic hides the success of the region in moving on into 'softer' business support and innovative enterprise types such as CED. It should be noted too that the Highlands and Islands in 2000-06 devoted a greater share of ERDF to Productive Environment support than Mountain areas (26.7%), Island regions (31.5%) or Sparsely Populated Areas (37.2%) elsewhere in the EU.
- (b) The commitment of the programme to supporting enterprise most suited to islands, and the small scattered communities which characterise the region's mountain and sparsely populated areas can be seen in the relatively high proportion of ERDF committed to SMEs and the craft sector (35.6% compared to only 9.6% for EU Objective 1 programmes as a whole, and 12.6% in mountain area programmes, 16.1% in other island regions and 19.2% in other SPAs. The fact that the Highlands and Islands has less SME and craft support than the UK regions as a whole (45.9%) is again an unfair comparison given its remote and highly rural nature.
- (c) It is interesting that while ERDF support for transport infrastructure is pretty much on a par (or even slightly on the low side at 31.9%) with other Objective 1 regions, the region has chosen to direct a higher share to telecommunications infrastructure and ICT (6.7% compared to an EU Objective 1 region average of only 3.2%, and with mountain areas, islands and SPRs all investing less as a share than the Highlands and Islands.
- (d) Energy infrastructure too is quite heavily supported in the region (at 4.0% greater than other Objective 1 regions (a mere 1%) and the mountain, island and SPA regions (1%, 1.7% and 0.3% respectively). On the other hand, it must also be noted that the commitment to Environmental infrastructure is weaker (at 3.2% well below the Objective 1 average).

The Table below sets out the 2007-13 Highlands and Islands OP *allocations* of ERDF by field of intervention. A number of key features are revealed from this analysis:

- (a) The OP continues the 2000-06 emphasis on supporting businesses and enterprise, particularly SMEs, with some 24% of the budget targeted at Entrepreneurship, although most of this (19%) is on fairly traditional types of help rather than firms directly linked to research and innovation or environmentally friendly products (8%

- and 2% respectively).
- (b) The programme is highly focusing effort on Innovation and RTD, particularly by supporting research centres and infrastructure (18% of the 36% focused on this field of intervention). Direct help to the firms themselves in this field remains limited (e.g. only 7% for firms directly linked to R&D).
 - (c) Direct support for transport investment is limited in nature, reflecting the more mature stage of the programme and the greater focus on business and enterprise. Nevertheless, transport infrastructure still takes 9% of the budget.
 - (d) Somewhat less than one might expect is the allocation to tourism (and culture) of only 8%, an important sector in the region, and explicitly for urban and rural regeneration (5%), although the rural communities do benefit through the other measures too.

| Field of intervention | Euros | % |
|--|-------------------|------------|
| A. Innovation and RTD | 43,814,630 | 36% |
| 1. R&TD activities in research centres | 10,798,303 | 9% |
| 2. R&TD infrastructure and centres of competence in a specific technology | 10,798,303 | 9% |
| 3. Technology transfer and improvement of cooperation networks | 3,107,491 | 3% |
| 4. Assistance to R&TD, particularly in SMEs (inc. access to R&TD services in research) | 4,752,633 | 4% |
| 7. Investment in firms directly linked to research and innovation | 9,605,267 | 7% |
| 9. Other measures to stimulate research and innovation and entrepreneurship in SMEs | 4,752,633 | 4% |
| B. Entrepreneurship | 29,799,501 | 24% |
| 6. Assistance to SMEs for the promotion of environmentally-friendly products and processes | 2,281,264 | 2% |
| 8. Other investment in firms | 22,765,604 | 19% |
| C. Information Society | 11,523,883 | 9% |
| 10. Telephone infrastructures (inc. broadband networks) | 1,069,879 | 1% |
| 14. Services and applications for SMEs (e-commerce, education and training.....) | 8,077,687 | 7% |
| 15. Other measures for improving access to and efficient use of ICT by SMEs | 2,376,317 | 2% |
| E2. Energy – Renewable | 1,096,762 | 1% |
| 39. Renewable energy - wind | 292,470 | 0.25% |
| 40. Renewable energy – solar | 292,470 | 0.25% |
| 41. Renewable energy – biomass | 292,740 | 0.25% |
| 42. Renewable energy – hydroelectric, geothermal and other | 219,352 | 0.25% |
| G. Tourism and Culture | 10,357,085 | 8% |
| 55. Promotion of natural assets | 2,071,661 | 2% |
| 57. Other assistance to improve tourist services | 6,213,763 | 5% |
| 60. Other assistance to improve cultural services | 2,071,661 | 2% |
| D2. Transport – Roads | 5,749,395 | 5% |
| 20. Motorways | 1,362,349 | 1% |
| 22. National roads | 2,047,288 | 2% |
| 23. Regional/local roads | 2,339,758 | 2% |
| D3. Transport – Other (Multimodal, air, boats) | 4,533,281 | 4% |
| 26. Multimodal | 2,193,523 | 2% |
| 30. Ports | 2,339,758 | 2% |
| F1. Environmental Protection and Infrastructure | 4,752,633 | 4% |
| 50. Rehabilitation of industrial sites and contaminated land | 4,752,633 | 4% |
| H. Urban and Rural Regeneration | 6,579,350 | 5% |
| 61. Integrated projects for urban and rural regeneration | 6,579,350 | 5% |
| M4. Technical Assistance | 3,655,872 | 3% |
| 85. Preparation, implementation, monitoring and inspection | 1,827,936 | 1.5% |
| 86. Evaluation and studies, information and communication | 1,827,936 | 1.5% |

| | | |
|--------------|--------------------|-------------|
| Total | 121,862,392 | 100% |
|--------------|--------------------|-------------|

Source: European Commission, 2011.

4. ERDF and Cohesion Fund (where relevant) strategies and relevance

(a) 2000-06 SPD

The 2000-06 SPD addresses the problem of the geographical specificity of the region in the context of the analysis of the current situation of the region (the ex ante evaluation and SWOT analyses) and in the framework of the strategy development for the Programme. Taking the SPD and Programme Complement (PC) together three key features stand out:

1. The overwhelming emphasis in both the ex ante evaluation/SWOT and the programme strategy is on only *two* geographical characteristics: *peripherality* (i.e. remoteness) and *insularity* (meaning islandness). “Scarcity” and “sparsity” of population appear from time to time, but usually as an accompaniment to the discussions and analysis of peripherality. Mountain region issues are almost never discussed. Indeed, there is only a single mention of mountains in the whole SPD.
2. The geographical characteristics are overwhelmingly seen as *problems/weaknesses* to be overcome. This is best seen in the overall regional SWOT analysis and in the ten individual sub-regions SWOT conducted and set out in Chapter 15 of the SPD. Of the nine Strengths identified in the region-wide SWOT, *none* are geographical characteristics although three are resource endowments (natural and man-made heritage, oil, fish stocks) and one stresses culture and communities (including Gaelic culture and language). Of the nine Weaknesses in the SWOT, no fewer than *six* are essentially geographical characteristics: (a) “scarcity of population”, (b) “scattered islands and remote mainland communities”, (c) “peripherality”, (d) “transport costs and infrastructure gaps”, (e) “inhospitable terrain and climate”, but notice that even here mountainous terrain is not specifically mentioned, and (f) “fragile local economies” (these are the HIE fragile areas discussed earlier and which are partially delineated using geographical characteristics). Of the nine Opportunities identified, none are geographical characteristics (four are resource endowments – fish, renewable energy, forests and environment/culture for tourism). Of the seven Threats, one is explicitly geographical (“continued loss of population from the peripheral areas”). What we see here very clearly is the perception of geographical characteristics as being largely problems which must be alleviated. There is almost no analysis or perception of these characteristics as opportunities and strengths. Only resource endowments and cultural heritage are seen as strengths. All of the 10 sub-regional SWOTs mirror this approach, with the twin issues of peripherality and insularity being extended in many of the sub-regional SWOTs to include “multiple” or “dual” insularity (i.e. archipelagos or “islands off islands”), transport problems and remoteness leading to “scattered, dispersed local markets” and various population decline issues. Notice again the predominant view of geographical characteristics as problems.
3. The geographical characteristics do not appear in the Vision Statement (made up of four parts), but “to reduce the problems caused by peripherality and insularity” does appear as one of six partnership goals (i.e. strategic objectives). Notice the emphasis on problems again. None of the Priorities or Measures are explicitly geographical in nature. They therefore cut across the sub-regions and across areas with different geographical characteristics. However targets are set for the strategic

objective of reducing the problems of peripherality and insularity (two peripherality indexes and measures of community confidence levels). Whilst the key Priorities and Measures are not specifically geographical, there are two Area Priorities: (a) Fragile areas, and (b) Redevelopment areas. The latter are mainland areas, but the former as we have already seen are in part based on the geographical characteristics of insularity and peripherality/remoteness.

(b) 2007-2013 OP

A similar approach to the ex ante evaluation and SWOT analysis was undertaken for the 2007-13 OP (for ERDF only) as was undertaken for the 2000-06 SPD. However, given the steep fall in funding between the two programmes (with EU funding reduced to around 2% of all public expenditures in the region, about half of the 2000-06 figure), the analysis is less detailed and comprehensive than for the 2000-06 SPD. For example, there are no sub-region SWOT analyses in the 2007-13 OP whereas the 2000-06 SPD undertook ten of these, adding great detail to the analysis of the effects of geographical characteristics.

- *Are specific analyses of areas concerned by specific geographical features presented in the OPs? If so, do they consider their impact at NUTS2 or NUTS3 level?*

(a) 2000-06 SPD

The SPD contains not only separate SWOT analyses at the level of 10 sub-regions (i.e. at levels *below* NUTS3 for most of the region), but also conducts the socio-economic analysis as far as possible at NUTS3 or below. Four of the 10 sub-regions are wholly island groups and hence focused on a single geographical characteristic. The others typically contain a mixture of the three geographical characteristics of interest to this study (islands, mountainous areas, sparsely populated areas).

It is instructive to examine how the geographical characteristics are analysed in each of the constituent parts of the socio-economic analysis in the ex ante evaluation (the SWOTs have already been discussed above):

Population and demography: population *density* is analysed and related to provision of goods and services, costs and lack of economies of scale. *Islandness* is analysed, with small islands (under 500 persons) particularly examined and their over-reliance on the primary sector and public sector identified.

Agriculture: No geographical aspects considered, but *crofting* and its related multi-tasking with fishing, weaving and construction work is examined. Crofting is a distinctive feature of farming in Scotland.

Employment: no geographical characteristics are analysed.

Unemployment: the situation on the *islands* and in *peripheral areas* is analysed, and *seasonality of work* is picked out for particular issue in these areas.

Skills: no geographical characteristics are analysed.

Education/training: no geographical characteristics are analysed, but the dominance of Inverness in HE is analysed in terms of difficulty of access for remote communities.

Social economy: this is analysed in particular from the perspective of the *fragile areas* (i.e. islands and peripheral areas again). This section also deals in detail with “stewardship and management of land and assets, with sustainable management of these assets for the

benefit of the community”. This must be seen in the context of land reform in the Highlands (breaking up of large estates, support for crafting), and includes a strong element of forestry assets for community use and control. This is largely (but not wholly) a mountainous area issue and yet the SPD does not use this topic to stress the particular issues faced by mountain regions.

Equal opportunities: no geographical characteristics are analysed.

Business and SMEs: Here *peripherality* as a problem faced by SMEs and micro-businesses is analysed.

Cost of living: This is examined in depth and is seen to be largely a problem of *peripherality* and adverse *climate*. *Island* high construction costs are separately examined.

GDP: no geographical characteristics are analysed.

Peripherality. This is the sole geographical characteristic which has its own analytical section. Islands, mountainous areas and SPAs are not explicitly analysed. Peripherality from (a) the wider EU, and (b) within the region with respect to the main city, Inverness, is identified as the key problems. The detrimental effects arising from peripherality are set out as higher costs, time delays, reliability, quality of products and services and the perceptions of entrepreneurs.

Development constraints: “physical geography and very low population densities”, leading to high transport costs and special island transport problems are seen as a major constraint. Better roads, ports and airports are seen as possible solutions.

Water/drainage: no geographical characteristics are analysed.

Energy: no geographical characteristics are analysed, but hydro-electricity and renewable energy (especially wind and marine) are separately analysed.

Telecommunications: no geographical characteristics are analysed, but the sector is seen as key to responding to “geographical disparity”.

Environment: no geographical characteristics are analysed, but landscape and biodiversity are separately covered.

Taken together these reveal once again for the 2000-06 SPD: (a) a strong focus on peripherality and insularity, with sparse population only rarely brought in and mountainous regions never explicitly covered, (b) the geographical characteristics being overwhelmingly analysed for the problems they cause and not the opportunities they offer. The result is an extremely ‘defensive’ strategy as far as these characteristics are concerned.

(b) 2007-13 OP

Taking the evaluation and the SWOT (regional level only) together for the 2007-13 OP:

1. The ex ante evaluation does not go into as much detail as its 2000-06 counterpart on the effects and problems posed by geographical characteristics. Fewer of the 14 key sets of indicators analysed take the analysis down to NUTS3 sub-regions or below. Moreover, geographical characteristics are mentioned and analysed less frequently in the ex ante evaluation than in its 2000-06 counterpart.
2. Once again it is *peripherality* and *insularity* which dominate, but insularity figures much less prominently in the 2007-13 ex ante evaluation while *sparsely populated areas* are given greater consideration. Indeed, it is surprising how little insularity is discussed in the 2007-13 OP, perhaps because the main islands NUTS3 regions did rather well in the run up to the OP being drafted, or perhaps because the report felt it had little new to add to the 2000-06 SPD. Mountainous areas are again barely

ever mentioned. The performance of the fragile areas is given more prominence in the 2007-13 analysis.

3. As in the 2000-06 SPD, peripherality, sparse population and insularity are largely seen as problems, and not as strengths or opportunities. However, the language has subtly changed, from problems/weaknesses to ‘challenges’, and hence the negative overtones are slipping away slowly. However, it should be noted that in the SWOT analysis it is still within the set of ‘Weaknesses’ that the majority of the geographical characteristics appear (three of the eight Weaknesses – peripheral areas, fragile communities and transport/ICT infrastructure gaps).
 4. Some new themes in the analysis were (a) depopulation of smaller outlying islands in island groups and also the fragile areas, (b) significant in-migration to the main islands from the rest of the UK, reversing population decline in the Western Isles, Orkney and Shetland, (c) more emphasis on the role of peripherality in impeding business and exporting, picking up more of the Lisbon Agenda, (d) a deeper analysis of the settlement pattern issue caused by scattered sparse populations, and (e) a substantial analysis of the extent and issues faced in peripheral and fragile areas, showing a greater focus on these types of areas.
- *Do OP priorities and objectives differ for regions with specific geographical features at the NUTS3 level? Does the overall strategy of the OPs differ on these issues between the two programming periods?*

2000-06 SPD and PC

No explicit mention can be identified in the 2000-06 SPD and PC documents, with regard to different priorities and objectives *at NUTS3 level* for those areas of the Highlands and Islands having specific geographical features. In fact, the Programme objectives and priorities are relevant for the whole region, at least at the Programme design level. Yet, one would expect that such recognition has/is taking place in the actual decision-making and specific calls for projects during the implementation phase. However, as noted earlier, in the 2000-06 programme, at the level of local council *wards* a separate Area Priority for the *fragile areas* (mostly island and peripheral areas) was established. The PMC established a special “area priorities table” for the fragile areas and for a second Area Priority (redevelopment areas). This was used to (a) *encourage* more project bids deliberately targeting the fragile areas, (b) influence appraisal guidance, be formally included in selection criteria, and be formally part of the monitoring process. No separate budget was allocated either to the Area Priorities or the individual NUTS3 sub-regions.

2007-13 OP

The 2007-13 programme, though much smaller than the 2000-06 programme, exhibits a significant shift towards a greater recognition of geographical specificities. Whereas there are no Priorities or Measures in the 2000-06 programme focused on particular areas (apart from a broad Rural and Fisheries Priority – i.e. sectorally and not place based), in the 2007-13 programme there are only *three* Priorities (a fourth being Technical Assistance). One of these is explicitly based on geographical characteristics. The three Priorities are:

1. Enhancing Business Competitiveness, Commercialization and Innovation
2. Enhancing Key Drivers of Sustainable Growth
3. Enhancing Sustainable Growth of Peripheral and Fragile Areas.

As noted earlier, Priority 3, the Priority of greatest interest to our study, has been allocated 25% of the total budget for 2007-13, and it is focused and disadvantaged local areas with criteria of peripherality, low population density and islandness dominating the selection criteria. This Priority, as with the other Priorities shows a programme closely inter-twined with that of HIE, since it is HIE definitions of these areas which apply. Moreover, the key industrial sector being targeted by priorities 1 and 2 are also largely those of HIE (especially renewable energy, tourism & cultural-based industries, food & drink, forestry, other energy-related industry and life/health sciences). HIE (along with the University of the Highlands and Islands) is a designated Strategic Delivery Body for large Priority 1 projects.

The singling out of the peripheral and fragile areas for a special Priority of their own is a major new step in integrating geographical characteristics into an ERDF programme for this region. It is interesting, therefore, to look at it in more detail. The method for delineating eligible areas has already been discussed (note that mountainous terrain plays no part in these but insularity and sparse population do, alongside peripherality). The Priority is concerned with both social and economic sustainability, but in line with the Lisbon Agenda the Priority has a strong economic focus. The OP picks out “sparse and widely dispersed population”, “insular and island communities”, “lack of access to services, jobs and training”, “isolation” and “remote and peninsular communities” as key challenges (note the first mention of peninsularity as a geographical characteristic posing challenges). The HIE fragile areas encompass around 18% of the population of the region (see map). This Priority is therefore seeking to spatially focus the aid given, and has also sought to encourage the development of joint coordinated ERDF/ESF bids in the form of holistic packages of types of assistance. Indeed, even though the ESF programme is separate from the ERDF one, there is a special facility to allow up to 10% of the ERDF budget for Priority 3 to be switched into the ESF-type activities as part of joint bids.

Priority 3 is focused on the following types of activities:

1. Conversion of buildings to enterprise and community centres and facilities offering employment or training to local community inhabitants, especially if ‘green design’ principles are applied.
2. Refurbishment of existing business development facilities to enable more new firms to be established (e.g. incubator and business support centres), again especially if using ‘green design’ principles.
3. E-skills and e-learning/e-commerce facilities.
4. Childcare and dependent care facilities.
5. Medium-sized renewable energy (small-scale to be funded via Scottish Rural Development Programme).
6. Small-scale strategic transport infrastructure links (especially road and ferry services and again especially if ‘green design’ principles are applied).
7. Small-scale projects to improve links from smaller offshore islands to the main island in the group, again especially if incorporating ‘green design’ principles.
8. Investments in ICT for better broadband access in the fragile areas.

Taken together these show an emphasis on business development in the peripheral and fragile areas, but with a particular focus on transport and ICT initiatives to offset remoteness and the problems of the smaller islands.

The targets reflect this strategic approach:

- 40 e-learning, childcare and other community facilities supported
- 2,100 m2 of business space created or modified
- 15 transport projects supported
- 15 renewable energy projects supported
- 10 renewable energy projects supported
- 1,200 gross new jobs
- Increase in share of energy from renewable sources
- Increase in travel time saved per journey
- Increase in broadband usage
- Net new jobs created.

2000-06 SPD

The 2000-06 SPD clearly links the weaknesses arising from the geographical specificities of peripherality, insularity and (much less frequently) sparse population, with the objectives of the Programme and with the Priorities/Measures of the intervention. However, none of the five Priorities or the many Measures is explicitly concerned with the geographical characteristics. The one exception is the Strategic Objective of “reducing the problems caused by peripherality and insularity”, and this is given its own monitoring targets, but does not appear as a separate Priority or Measure. The case of the fragile areas has already been discussed. No zoning or special budget allocations targeting geographical specificities were established. As we have seen earlier, the actual out-turn commitment analysis by NUTS3 does show that the process did work quite well in that the NUTS3 regions away from UKM62 (Inverness) attained higher per capita expenditures, with the main islands regions doing particularly well.

2007013 OP

The key change from 2000-06 to 2007-13 is the creation of a special Priority for the peripheral and fragile areas of the region, with its own budget, set of eligible activities and map of assisted areas. While this is still only 25% of the full budget, it is a radical new step. The islands, mountainous areas and sparsely populated areas will also, of course, be eligible for help from the other two Priorities, but it is still too early to judge how much aid they will eventually get from the two mainstream Priorities as the programme unrolls.

There is widespread use of subsidies for island ferries in the region. These are allowed as derogations under EU competition policy, as are the subsidies for transport and ICT infrastructure projects. In addition, the region has, and continues to benefit from approval of state aids, notably Regional Selective Assistance, Local Authority Assistance for SMEs, the HIE Enterprise and Development Innovation Scheme for SMEs, and the Scottish Enterprise Research and Development Scheme.

5. Quantitative results of the ERDF/CF programme

According to the Updated Interim Evaluation Report 2000-2006 SPD (December 2005):

1. The performance by mid-term for the Highlands and Islands programme was

- extremely good, both in terms of financial uptake and in meeting the various Priority and Measures targets. Indeed, for Priority 3 (Human Resources – the ESF Priority) up-take was well ahead of schedule.
2. For Measures 2.3 (Renewable Energy) and Priority 2.4 (Waste Water, pollution Control etc) and for several of the EAGGF initiatives there was some concern at slow progress in terms of up-take. These are of some importance for the islands, mountainous and sparsely populated areas of interest in this study. The slow progress for renewable energy is of particular concern as this is seen as one of the great Opportunities for the islands, mountain areas and sparsely populated areas in both the 2000-06 and 2007-13 programmes. It is, however, still a sector in its infancy and it can be expected to accelerate as time progresses. All the other Priorities and Measures were seen to be doing well, including the rural areas and fisheries Priority which is of particular importance for the areas with the three types of geographical characteristics of interest in this study.
 3. It was estimated that by 2005 some 3,730 net new jobs had been created by the programme, a very successful outcome for such a small region.
 4. Finally, for the horizontal theme of *social inclusion*, very important for the *fragile areas* deliberately targeted by the programme, the evaluation showed that the bulk of new job creation (57%) was in the Highland sub-region. The other regions (Western Isles, Orkney Islands, Shetland Islands, Moray and Argyll and Bute) had benefited to a much smaller extent. This is a concern given the importance of social exclusion problems in the islands, particularly the Western Isles.

According to the Closure Report for the 2000-06 Programme, ERDF achieved 94.67% of the Operational Programme award in Euros. Every priority within the ERDF element of the programme achieved over 82% of its target. The Closure Report stressed that the Programme, during its 8 years of existence, successfully delivered its vision even though the socio-economic context threw up some challenging issues including the effect of foot and mouth disease in the region, the closure of oil fabrication yards as well as the recession. Overall, a total of €960M of expenditure and €293M of grant was paid out to projects. In addition, the Programme made several key achievements including 7,135 gross jobs created; 10, 578 gross jobs safeguarded; 9485 business (new and existing) were assisted. In terms of infrastructure, 83 km of transport related infrastructure was constructed or upgraded; over 1M KW of new Renewable Energy infrastructure were installed.

6. ERDF Governance and complementarities with other sources of funding

The governance of the funds for the 2000-06 programming period was a typical one for the time structured around three main bodies: the *managing authority* (the Scottish Executive's Structural Funds Section in Edinburgh – i.e. the newly-devolved Scottish Government), the paying authority (same) and the control authority. Supporting these, there did the programme monitoring committee (PMC) comprise the main regional partners and stakeholders, which met at least once a year to guarantee the effectiveness and successful development of the Programme. The programme management executive was established in Inverness, with many of its functions contracted to HIPP Ltd in Inverness (Highlands and Islands Partnership Programme Ltd).

As stated by the Cohesion Policy 2007-13 documents, for 2007-13 programming period, the certification authority and the auditing authority replace the previous regulation's paying authority and control authority. The functions and responsibilities, though, show no significant changes.

In the 2007-13 programme the managing authority is again the Scottish Government (through its Highlands and Islands Programme Team) in Edinburgh. There is now an Intermediate Administrative Body (IAB) the Highlands and Islands (Scotland) Structural Funds Partnership Ltd based in Inverness, with HIPP acting as the main agent in this. There are two designated Strategic Delivery Bodies – HIE and the University of the Highlands and Islands, the former with powers for large Priority 1 projects and the latter for large Priority 2 projects.

In keeping with UK tradition, the PMC has grown over time to incorporate an ever-wider group of partners and stakeholders, with more union and community organisations becoming involved. It should be noted, however, just how important HIE has been, in continues to be in shaping the overall strategy and in being an active partner in many of the main projects.

7. Conclusion

Three conclusions are pertinent here:

1. Key geographical characteristics were embedded within the 2000-06 programme right from the start – in the very detailed socio-economic analysis of the ex ante evaluation, in the overall regional SWOT, in the 10 sub-regional SWOTs (some of them exclusively island or SPA sub-regions) and in the decision to focus attention of the HIE's 'fragile areas'. However, the key geographical characteristics which dominate, and still dominate, are *peripherality*, *insularity* and to a lesser extent *sparse population*. Being mountainous rarely figures
2. Similar comments apply to the 2007-13 programme. However, the analysis of the effects of geographical characteristics is much less comprehensive in the 2007-13 OP.
3. The geographical characteristics are generally seen as 'Weaknesses' and not 'Strengths' or 'Opportunities'. This perception had declined a little by 2007-13 but was still the dominant view. This is unfortunate.
4. The two programmes are unusually closely interlinked with the regional development agency (HIE). This is a good example of a region in which EU cohesion policy was introduced to a region with a successful and long-established regional development agency. As a result, the programmes are 'mature' ones (e.g. more on productive investment expenditures and 'softer' business support rather than on hard infrastructure projects, and more on social inclusion and CED).
5. The main change between the 2000-06 and 2007-13 programmes is the creation in the 2007-13 programme of a separate Priority (with 25% of the budget) just for the fragile areas – i.e. targeted on areas with peripherality and island characteristics at sub-NUTS3 level (local authority wards). These are also the HIE's targeted areas.

The region, because of the maturity of its specialised policy programmes (the HIE has

existed since 1976), and because of the big 1994-99 Objective 1 programme, has many exemplar projects. From the perspective of the peripherality and island characteristics, the following g exemplar projects can be identified:

1. Development of the University of the Highlands & Islands (UHI) Millennium Institute, drawing on ICT and distance learning methods to create Community Learning Networks, lifelong learning initiatives and an enhanced R&D base not only in Inverness but in centres across the region.
 2. Renewable energy projects, such as the community Energy Company Revolving Fund, the Western isles Community Renewable Support Fund and the Westray and EMEC (tidal power) projects in Shetland and Orkney.
 3. The Western isles Broadband Initiative and the joint Scottish executive/HEI ERDF-supported Broadband Supply Side Intervention. The region now has some of the highest broadband access rates in the UK.
 4. A large number of transport initiatives (e.g. additional summer sailings for the outer islands in the Orkney group).
 5. Forestry Commission Scottish Biomass Support Scheme.
 6. The Stornoway Creative Industries and Media Centre in the Western Isles.
- What other issues arise from this analysis? (eg data gaps or issues, specific difficulties, interesting points to examine further)

The region would make an excellent candidate for an in-depth case study for the following reasons:

1. Although the 2000-06 and 2007-13 programmes are declining transitional programmes (1994-99 being the main Objective 1 effort in the region), they do show nicely OPs at a mature stage (i.e. after the big infrastructure ‘push’ on transport, ICT, water and the like. They contain more productive investment and ‘soft’ business support measures, plus a greater emphasis on social inclusion/CED policy and environmental sustainability. The region is a classic example of a ‘late stage’ programme.
2. Two of the three geographical characteristics of interest are embedded throughout the 2000-06 programme (insularity and sparse population). Only mountainous areas are not explicitly covered, and this in itself is of great interest. In addition, the further characteristic of extreme peripherality (both to the wider EU and within the region with respect to Inverness) is given close attention in both programmes.
3. The two programmes show a movement from seeing the geographical characteristics as solely problems/weaknesses to a slightly more positive view.
4. The two programmes show a move from explicit recognition of the geographical characteristics but no specific Priorities or Measures (2000-06) to not only explicit recognition but also a separate priority – the fragile areas priority (2007013).
5. The region was, until the financial crisis of 2008, a success story of how EU and other public funding could successfully help some of the most remote island, SPA and mountain regions of the EU.
6. There are many exemplar projects of how geographical disadvantage can be ameliorated and turned to advantage.
7. Although there are some data issues at NUTS3 level arising from the groupings of

counties used at that level, these apply only to Eurostat regional data sets. Scotland has a very fine statistical service and produces high quality social and economic data at local level, with long time series being available for more detailed analysis. There is also an extensive previous literature for the region based on high quality statistical and econometric analysis.

8. The region is an excellent case of EU programmes being added to well established regional and national policies, with a major regional development agency already in place.